*SSH Communications Security*

# Annual Report 05

## 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, Valimotie 17-19, Helsinki on March 21, 2006, starting at 4 pm.

Shareholders registered by Friday March 10, 2006 in the shareholders' register maintained by the Finnish Central Securities Depository Ltd, and who by 4 pm Finnish time on Wednesday March 15, 2006 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 March 15, 2006.

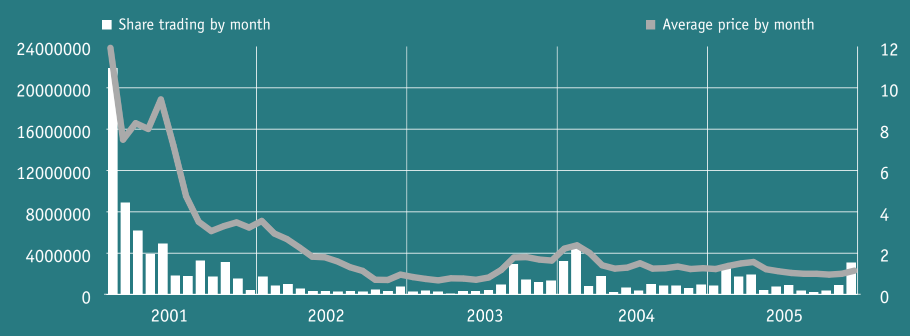
## Financial reporting in 2006

SSH Communications Security Corp will publish the following financial reports during 2006:

| | |
|---|---|
| Financial statements bulletin for 2005 | February 8, 2006 |
| Annual Report 2005 | week 10 |
| Interim Report January 1 to March 31, 2006 | April 19, 2006 |
| Interim Report January 1 to June 30, 2006 | July 26, 2006 |
| Interim Report January 1 to September 30, 2006 | October 18, 2006 |

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.

Share trading and average price




## Company information

SSH publishes all stock announcements and maintains shareholder information in the company website. You can also submit questions to SSH about its operations to ir-team@ssh.com.

Investor relations
CFO Mika Peuranen
Tel: +358 20 500 7419
E-mail: mika.peuranen@ssh.com

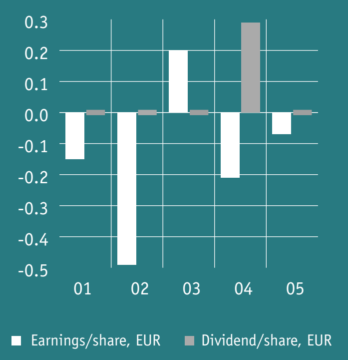
## The ten largest shareholders on December 31, 2005 (excl. those with nominee-registered shares) were as follows

| | % | Number of shares |
|---|---|---|
| 1. Ylönen Tatu Juhani | 52.10 | 14,727,649 |
| 2. Kivinen Tero Tapani | 6.77 | 1,912,971 |
| 3. Assetman Oy | 4.95 | 1,400,000 |
| 4. Keskinäinen Eläkevakuutusyhtiö Ilmarinen | 1.71 | 483,450 |
| 5. Promotion Capital I Ky | 1.70 | 480,000 |
| 6. Tatu Ylönen Oy | 1.33 | 375,071 |
| 7. Nordea Pankki Suomi Oyj | 0.88 | 250,000 |
| 8. Kaukonen Kalle Simeoni | 0.61 | 172,150 |
| 9. Adams George F | 0.57 | 162,300 |
| 10. Kiiveri Erkki | 0.50 | 141,050 |
| Total | 71.12 | 20,104,641 |
| | | |
| Nominee-registered holdings | 1.74 | 492,630 |

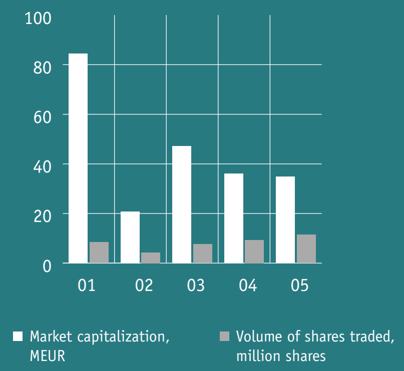
## 2005 share information

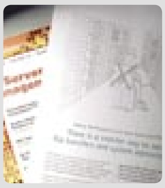
| | | |
|---|---|---|
| Highest price | 1.78 | EUR |
| Lowest price | 0.91 | EUR |
| Mid price | 1.23 | EUR |
| Total trading volume | 11.4 million | shares |
| Market capitalization | 34.8 million | EUR |

Earnings and dividend per share




Market capitalization and volume of shares traded







The financial statements section appears as a separate enclosure.


Installations
Server
Feeling the Pressure to Lock Down Telnet and FTP?
There is a smarter way to secure file transfers and system administration!
SSH Tectia, an enterprise-class security solution from the original developers of Secure Shell, allows you to cost-effectively replace all plaintext file transfers and system administration connections throughout heterogeneous networks.
Supporting all key enterprise platforms including Windows, Unix, Linux, and mainframes, SSH Tectia ensures seamless cross-platform connectivity with strong authentication and high-performance encryption based on the SSH G3™ architecture. Centralized management and enterprise-class support services allow cost-effective operation and easy compliance with auditors' requirements.
Download a FREE white paper about secure FTP and Telnet replacement at http://www.ssh.com/sysadmin-ssh/ or contact sales at sales.americas@ssh.com
ssh tectia
Original, Secure, Supported
www.sysadminmag.com

*SSH Tectia solution is easily deployed to replace unsecured file transfers (FTP) and Telnet connections.*

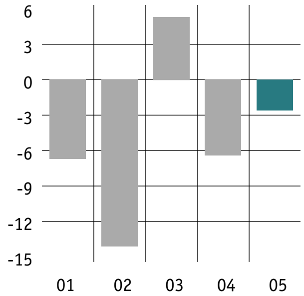
SSH Communications Security is a world-leading provider of enterprise security solutions and end-to-end communications security, and the original developer of the Secure Shell protocol. The company's SSH Tectia solution addresses the most critical needs of large enterprises, financial institutions, and 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 9.3 million for 2005 and employed 75 people at the end of the fiscal year. Besides Finland, the company has offices in the United States, Japan, Germany, and the United Kingdom.

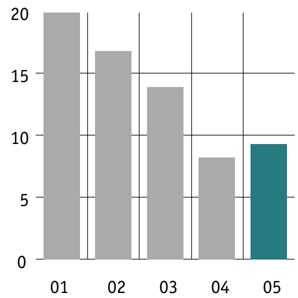
SSH manages its business by geographical region, as defined by the IAS (International Accounting Standards). The regions are the Americas, Asia Pacific, and Europe and the rest of the world. Since, however, business operations are very similar in each of the regions, this Annual Report discusses all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

Operating profit, EUR million




*The year 2003 was highly profitable due to the OEM business divestment.*

Net sales performance, EUR million




*From year 2004 onwards all revenue is based on the SSH Tectia products. Revenue figures of the earlier years include the OEM business, which was divested in late 2003.*

# Breakthrough to profitability

Thanks to very fast growth of sales during the 2nd half of the year, our SSH Tectia business made the planned profit breakthrough. Through the year, we developed and signed a number of very important multi-year contracts with leading enterprise customers in the USA and Europe, as well as executed deliveries of SSH's largest ever orders. These new customers include some of the world's largest financial organizations with the most demanding IT security requirements, and serve as excellent proof of SSH Tectia's value for many other firms worldwide. The fast growth of our prospect base throughout the year also created excellent outlook for our business in 2006 and beyond.

The first half of the year kept us still deeply in the investment-oriented activities to develop and fine-tune our product and technical support offerings, which helped us to substantially grow our sales prospect base.

Our close co-operation with customers has made SSH Tectia an even more versatile product family that enables standards and regulations compliant information security for very large and advanced customers.

The SSH Tectia sales grew 13 percent from the previous year. The 2nd half-year results were positive as planned and 2nd half sales were over twice the 1st half. However, the strong revenue growth in the 2nd half did not compensate the 1st half losses at the full fiscal year level. The net loss of the year was 2.0, first half loss 3.1 and second half profit 1.1 million euros respectively. On year-on-year comparison SSH's profitability improved 3.9 MEUR.

The trend within the year and year-on-year is very encouraging and proves that our two years' development program of the new SSH Tectia portfolio of enterprise security solutions has now started generating growth and profits.

The positive turn is due to a steady and fast growth of sales and the prospect base in the US, where many new laws, regulations, and standards now demand stricter policies for the implementation and auditing of corporate and government information security. The number of active sales cases in North America has grown significantly and is expected to continue growing. We believe that similar regulations will have a strong effect also on the European and Asian markets in the future. I believe these developments give us an excellent start for the coming year in all our served markets.

Our close co-operation with customers has made SSH Tectia an even more versatile product family that enables standards and regulations compliant information security for very large and advanced customers.

## New innovations in products

In 2005, we launched the new SSH G3 architecture. This included redesigning and rewriting the entire code base for the SSH Tectia product family. With this extensive R&D investment into the new SSH G3 architecture, we created the third-generation implementation of Secure Shell that is superior to its competitors in speed, capacity, versatility, manageability, platform support, user-friendliness and ease of maintenance. Our new SSH G3 architecture included provisions for products for our three major target applications; secure system administration, secure file transfer, and secure applications connectivity. We believe that in the long run this new architecture will also enable completely new innovative applications and business models.

Simultaneously with the architecture redesign, the SSH R&D teams worked in close co-operation with our largest customers to fine-tune the product to comply with the new and constantly evolving IT infrastructure and information security demands. The development emphasis was on enabling easy deployment, management, and use to secure the IT infrastructure of very large scale organizations. The third significant achievement area of our R&D was the development of SSH Tectia Server for IBM mainframes and for the Linux-based IBM eServer platform. SSH Tectia now offers the broadest platform support on the market, covering all essential server and client platforms required by the largest enterprise customers.

## Continued investment in marketing and sales

There were no significant changes in the number of sales offices or personnel during this year. We continued to invest in the new sales offices started in 2004, to develop the prospect base and create rapidly growing pipelines of active sales cases, and raise the new offices to the best possible level of operations and ramp up of revenue.

The enforcement of the new US legislation, industry specific standards and codes of practice, as well as many other initiatives for better information security began to accelerate creation of concrete IT security projects within our target customer base. The customer priorities and requirements were solidified by the IT security audits and respective deadlines. These anticipated positive market developments enabled us to implement more effective marketing and sales operations, which resulted in the fast growth of both the number and value of sales projects. The value of active sales projects more than tripled during 2005.

During 2005, we saw many large organizations conclude that they need to move away from open source security to a strong commercial solution such as SSH Tectia for lower total cost of ownership and to meet demanding new regulatory compliance and audit requirements.

Another very important development was co-operation with local and global partners, both in marketing and sales. To help accelerate this development further, we carried out more joint marketing and sales training programs with selected key distributors. Of the largest global relationships, the partnership with IBM significantly supported our marketing efforts.

## Successful cost-reduction program completed

In 2005 SSH significantly enhanced its productivity and cost efficiency. SSH's annualized operating costs fell by EUR 2.7 million, a reduction of 18 percent against 2004. Furthermore, within the year 2005, the operating costs for the second half of the year fell 11 percent from the first half.

We also executed considerable improvements in quality, quality assurance procedures, project management, and resource planning in all our technical functions. As part of our customer intimacy initiative, we managed tighter integration of processes between sales, product management, technical support, and R&D, which significantly increased the fit and value of our SSH Tectia solution to real current and emerging customer requirements, and well as increased responsiveness in the eyes of our customers.

We also started to get payback from the investments in our information systems that support sales, logistics, finance, and customer services. We still have a lot of more productivity improvements coming from these tools and systems as we go forward.

One noteworthy major cost-reduction measure was the relocation of the company headquarters in March from the Helsinki city centre to Pitäjänmäki where we have more modern premises for all Helsinki personnel as well as laboratories on one floor. The full impact of cost savings and productivity improvements from this relocation is considerable.

These measures together with a more focused product portfolio enabled us to reduce personnel in a controlled manner. At the end of 2005, SSH employed 75 people compared to about 100 at the end of 2004.

## The future

The regulatory environment governing information security and many industry-specific standards are evolving very fast. We created our SSH Tectia strategy to respond to these changes and needs for the benefit of our customers. From this, we have built a strategic business position to exploit these developments for SSH's immediate and long-term future.

The US is at the leading edge in the areas of legislation and technical security requirements. We see further pressure form these drivers in 2006. We also believe that the next stage will see rapidly growing demand potential in leading countries in Europe and Asia for our highly successful SSH Tectia products in the US.  Serving the world's leading customers in the US validates our strategy and shapes our products for our global growth in the next phase.

Globally operating companies and international co-operation in risk management will pave the way for IT security models, standards, recommendations, and regulations which will serve as drivers for SSH's future growth. Developed to meet the needs of major financial institutions, large enterprises and government organizations in leading countries, we believe that our products will be competitive the world over.

SSH's operations are now in good shape, we are focused, we have the solutions our customers need, and we have the reputation and trust we need to play in the market place with the most demanding customers and toughest competitors. We are set to continue our spirit of continuous development and improvement. Working together with our strong partners multiplies our resources. The number of prospects and tenders keeps on growing.

Accordingly, we can expect the market position and financial results of SSH and its best-of-breed products to strengthen in the foreseeable future.

I would like to thank all our SSH dedicated employees for their invaluable contribution in all SSH operations in 2005.

Arto Vainio
*CEO*

# Mission, vision, objectives and strategy

## Mission

SSH's mission is to enable secure business operations and data communications for large enterprises, financial institutions, and government agencies.

## Vision

SSH will be a profitably growing and globally leading provider of end-to-end communications security solutions.

## Financial objectives

SSH's long-term goal is to reach and maintain annual sales growth of 25–30 percent and to exceed 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 both existing and new SSH Tectia customers will enable it to further reduce sales, marketing and R&D costs as a percentage of net sales.

## Strategy

The strategic intents of SSH are to:

1. Increase business in selected target countries through direct sales and selected partnerships.
2. Further develop the market-leading end-to-end communications security solutions in close cooperation with customers.
3. Further enhance efficiency and quality in all operations.

SSH aims to reach the strategic objectives through customer intimacy, utilizing the large installed base of the Secure Shell technology, and by leveraging its expertise in security technologies and cross-platform solutions.

## Customer intimacy

The SSH Tectia solution is developed in close cooperation with the large enterprises, financial institutions, and government agencies of the target markets. Customers will receive added value by directly participating in the development process of the SSH Tectia products and services. The existing loyal customer base also helps testing new product concepts and enables controlled expansion to new application areas.

## Large installed base

The Secure Shell technology, originally developed by SSH Communications Security, is today used by practically all Global 2000 companies. The existing installed base offers an extensive sales and marketing presence for SSH Tectia products and services. SSH offers both complementing and competing solutions to the open-source Secure Shell (OpenSSH) technology. The wide installed base also provides a broad foundation that the company can leverage for potential future expansion to new SSH Tectia security applications.

## Security technologies

Security technology expertise is an essential part of the company's core competences, and it will be utilized for finding the most effective solutions to customers' communications security challenges. SSH Tectia combines multiple security technologies into a carefully focused solution that can create major added value to customers.

During the last 10 years, SSH has pioneered the standardization and development of key industry-leading security technologies. As a result of long-term standardization effort, the Secure Shell protocol specifications reached standard status within the IETF (Internet Engineering Task Force) standardization process in January 2006.

By the end of 2005 SSH held 11 patents.

## Technology platform expertise

Network environments of large enterprises are often extremely complex with multiple incompatible technology platforms such as computer operating systems. One of SSH's core competences is the ability to develop easily adaptable solutions that integrate into cross-platform environments. SSH Tectia will also in the future be actively developed for protecting data communications in such heterogeneous environments where a single platform vendor (e.g. Microsoft, IBM, Dell, HP, or Sun) alone cannot solve all security issues of the network.

*"In 2006, the U.S. Congress will likely enact legislation that will mandate the security of personal information. As the original developer of the Secure Shell protocol, SSH has demonstrated an ability to secure mission-critical data and applications from the client to the open systems server, and now to the IBM mainframe."*

**John Webster** *Data Mobility Group*

# Legislation drives new IT security investments

In 2005, local, national, international, and industry-specific regulations had a major impact on the IT priorities in enterprises, defining specific requirements especially for the IT security projects worldwide.

SOX (Sarbanes-Oxley Act) acted as a major driver in many information security investments. Having entered gradually into force already since autumn 2004, SOX regulates financial reporting of public companies listed in the US. The SOX Section 404, dealing with internal control mechanisms, requires companies to implement proper authentication, authorization, and monitoring in their network. International subsidiaries of US-listed public companies also need to comply with SOX 404.

Privacy legislations such as privacy laws in the EU and Japan, HIPAA (Health Insurance Portability and Accountability Act) in the healthcare sector, and GLBA (Gramm-Leach Bliley Act) related to the privacy of financial consumer data, defined tough requirements for the development of information security and set performance and schedule targets, especially for data encryption.

Major credit card companies have begun responding to the many publicized credit card data exposures and thefts by introducing financial sanctions for non-compliance and enforcing tighter requirements for protecting sensitive cardholder data. As a result, the retail industry increased their investments in data security during the year, starting particularly in the second half.

The enforcement of these regulations and standards, and related audits, planning projects, and investment programs proceed in stages. During year 2005, the intensity of audits and project planning grew strongly, especially in the US.

## Security updates caused headache

During 2005, new security vulnerabilities were found at an increasing rate in commonly used application and infrastructure software such as the Windows operating system. In many cases, the quick vendor-supplied security updates created completely new security issues, leading to a wide escalation of security problems. Keeping all security patches and product versions up-to-date has become one of the major challenges faced by the IT departments worldwide.

## Need for authentication and monitoring created demand for secure connectivity

In many security-related enterprise IT projects, more reliable identification and monitoring of user system access were among the key objectives. In many cases, SSH Tectia's capabilities for ensuring strong authentication for access, integrity of data, and reliable monitoring of network connections have initially been more important than data encryption. Access policy enforcement and monitoring requirements have also become closely linked to the SOX 404 regulations.

*SSH products address compliance requirements posed by new legislation. Compliance News magazine was designed to educate clients and partners of these challenges and to present solutions based on SSH Tectia.*

# Closer customer co-operation

As a result of closer customer co-operation, SSH announced in 2005 several major product expansions and new functionalities that further strengthen SSH Tectia as the communications security solution of choice for large organizations. The larger and growing SSH Tectia average deal size and broad range of active large-site pre-sales evaluations and pilot tests indicate that the company's focus continued to shift to large enterprises in line with the strategy. Large customers' complex IT infrastructures provide a versatile system solution like SSH Tectia with regular opportunities for long-term, multiphase projects that increase the breadth and depth of SSH's customer relationships and the company's business scale.

## To key accounts through direct sales

*"During Q3/2005, one of the largest retail chains in the US licensed SSH Tectia to thousands of servers. The initial deal included large-scale centralized management and the newly released SSH Tectia Server product for IBM mainframes. They now plan to expand the use of SSH Tectia to secure virtually all of their networks starting in 2006."*

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 co-operation and to offer high-quality technical services near the customers.

As in earlier years, most of SSH's net sales in 2005 were generated in the United States, where the company's most important customers include large banks, insurance companies, and the government.

New IT security projects driven by the new requirements such as the SOX legislation, privacy laws, and tighter auditing practices strongly increased SSH's sales case pipeline during 2005. Unlike in previous years, large retail companies were also actively investing in commercial solutions to secure their networks. Tighter regulations for cardholder data protection set by the credit card companies, and enforcement of financial sanctions for non-compliance, resulted in increasing demand for data security in the industry. SSH was also able to close several large deals with retail companies in North America during the year 2005.

**"The new demands of SOX, cardholder data security compliance, and other security requirements have significantly increased our customers' interest in SSH Tectia and their urgency to quickly move to licensing and production deployment, especially in the second half of 2005," says** ***Jeff DeLisio*****, Senior Sales Director.**

**"We're especially pleased to now have some of the world's very largest financial institutions committed to SSH Tectia, along with a fast growing base of large retailers, health care, and government organizations, with many in active negotiations for licenses for broad enterprise-wide deployment in 2006," says** ***George Adams,*** **Executive VP, Sales.**

The European market was still challenging for SSH in 2005, as many companies were very careful in their investment decisions. However, the sales case pipeline and the number of active projects increased significantly both in overall size and breadth throughout the year also in Europe and APAC.

*"During the fourth quarter, SSH signed multi-year frame agreements for enterprise-wide use of SSH Tectia products with two US financial sector leaders. The first phase deliveries included secure system administration connections in the very large IT infrastructure of the customers. SSH Tectia Manager enables such enterprise-wide scalability."*

## Growth through partnerships

In 2005, SSH deepened technology and marketing co-operation with selected partners. Especially the R&D and marketing partnership with IBM created additional awareness for SSH Tectia in the target markets.

In early 2005, SSH announced two major partnership projects with IBM. The launch of the SSH Tectia Server product for the IBM z/OS platform extended the use of SSH Tectia to mainframe environments. In February, SSH and IBM announced the availability of SSH Tectia for Linux-based IBM eServer™ platforms at the Linux World conference in Boston.

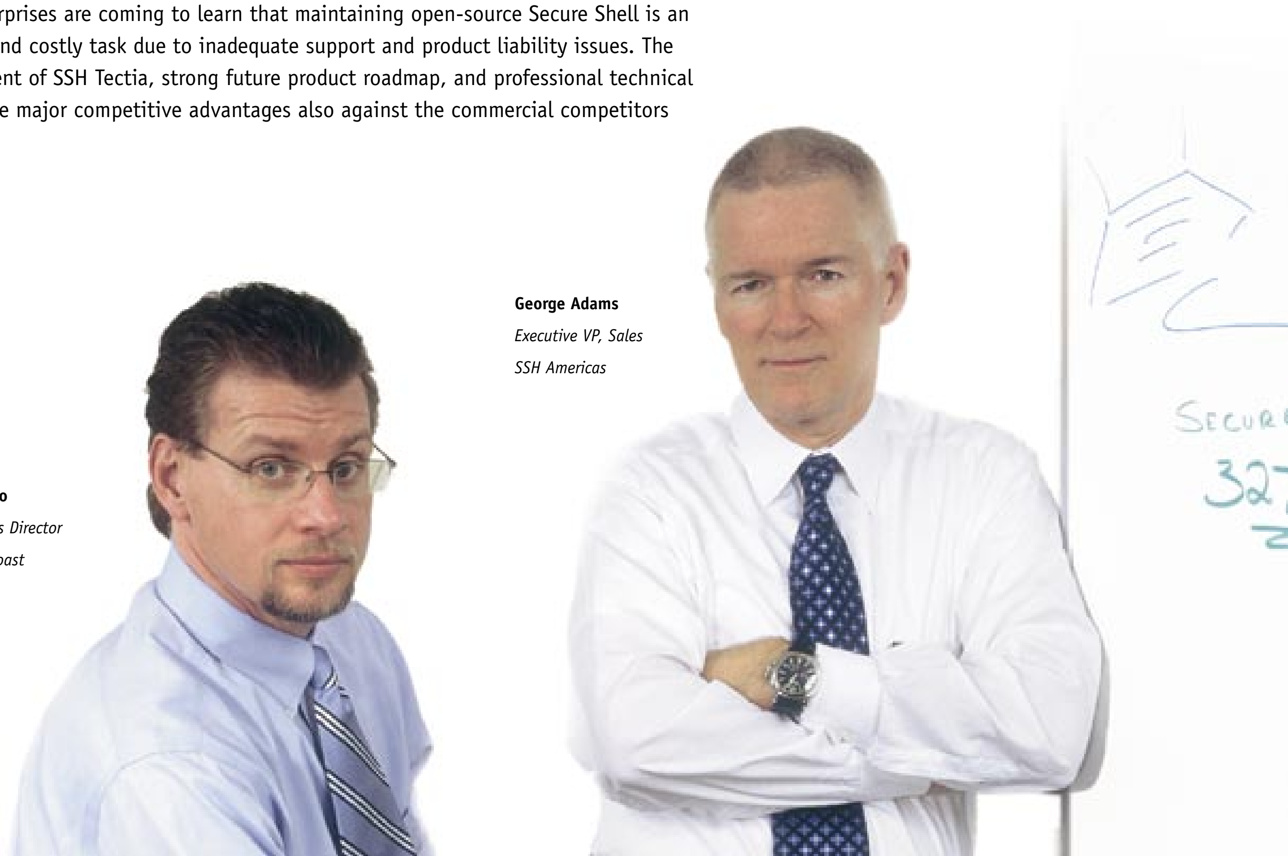
Other key partnership announcements included co-operation with BMC and Softlink to enable customers to use best-of-breed products for advanced and secure file transfers without interoperability concerns. The new co-operation with Novell, announced in March, helps marketing SSH Tectia to enterprise users of the SUSE® LINUX servers.

In addition to global technology partnerships, SSH cooperated locally with sales and system integrator partners in all regions. Outside the main markets, sales were handled completely through local distributors. SSH's sales and channel strategy enable partnering in both the sales and implementation phases according to the customers' wishes.

## Flexibility and responsiveness as competitive advantages

The size and complexity of data networks in large enterprises create special requirements for information security products. High-quality technical services and the ability to respond quickly to key customers' new requirements were in a key role in the largest deals of the year. During 2005, SSH's pipeline of active sales cases grew significantly, and the company did not lose any major projects to competitors. When deals were not closed, the reason was generally a delay in the customer IT evaluation process, expanded budget approval requirements, or a postponed or cancelled project.

Many large enterprises are coming to learn that maintaining open-source Secure Shell is an ever more difficult and costly task due to inadequate support and product liability issues. The proactive development of SSH Tectia, strong future product roadmap, and professional technical support have become major competitive advantages also against the commercial competitors in 2005.



**George Adams**
*Executive VP, Sales*
*SSH Americas*

**Jeff Delisio**
*Senior Sales Director*
*USA East Coast*

*The SSH G3 architecture was developed in close client co-operation; the launch was supported in North America among other marketing activities by targeted advertising towards UNIX system administrators.*

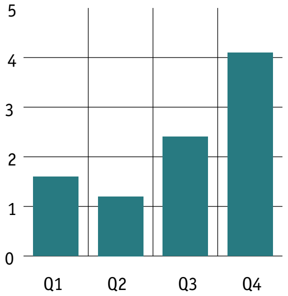
## 10 years and 3 generations of the Secure Shell technology

The year 2005 marked the 10th anniversary of the Secure Shell technology and SSH Communications Security. Tatu Ylönen developed the original Secure Shell (SSH1) protocol and founded SSH Communications Security in 1995. The second generation of Secure Shell was introduced in 1998 when SSH2, later standardized by the IETF (Internet Engineering Taskforce), was launched.

During the summer of 2005, SSH rolled out the third generation by launching the fastest Secure Shell implementation in the market, SSH G3™.

The Secure Shell protocol reached standard status in the IETF in January 2006, which will ensure wide-scale worldwide usage of Secure Shell also in the future.

SSH Tectia quarterly net sales performance 2005, EUR million




### *New architecture supports growth*

As a result of extensive research and development, and close co-operation with key customers, SSH introduced the new SSH G3 security architecture in the summer of 2005. With SSH G3, large organizations can secure large amounts of data without a decrease in performance. In addition to the performance benefits, the new architecture allows more flexible development of new product expansions and features, which will further speed up the fulfillment of new customer requirements in the future.

The architectural innovations and the high-speed CryptiCore® authentication and encryption technology make SSH Tectia the fastest Secure Shell implementation in the market. Also, the easier maintainability and scalability of the new technology will further improve the efficiency of the product development and improve product quality.

SSH | Original Secure Shell
10 Years 1995 – 2005


Designed for the Enterprise
Faster Encryption Performance
IBM Mainframe Support
Enhanced File Transfer Integration
www.ssh.com/sysadmin/
The Next Generation of Secure Shell Has Arrived!
ssh tectia
Avoid
UNIX and Linux
dba Projects

# SSH Tectia and application areas

SSH Tectia can be applied to secure data communications in three different areas: secure system administration, secure file transfer, and secure application connectivity.

## Secure system administration

Tatu Ylönen developed the original Secure Shell protocol in 1995 specifically for securing the remote connections to servers. Ten years later, secure administration of servers and other network appliances is still the single most widely used application of Secure Shell.

The majority of the new sales opportunities related to secure system administration in 2005 involved organizations that were using OpenSSH-based products for server access. New requirements related to centralized management, commercial support services, broader platform support, and product certifications were among the key reasons why many companies chose to replace or upgrade their existing Secure Shell solutions with SSH Tectia. Many large companies in the US and Europe made enterprise-wide decisions to prohibit the use of open source in their enterprise security solutions. For example, the largest deal of the year was driven by the customer's decision to fully replace OpenSSH with a commercial and supported security solution.

In June SSH announced a university licensing program in which institutions of higher education can license SSH Tectia at discounted rates. During the second half of the year, the program created a lot of interest among the target group and resulted in multiple new deals with universities.

The most relevant competitors of SSH in secure system administration are OpenSSH (as offered in open source or bundled with certain Unix and Linux distributions), Van Dyke and AttachmateWRQ. Also, many commercial Unix and Linux distributions with pre-installed OpenSSH software compete against SSH Tectia in secure system administration.

## Secure file transfer

In the short term, secure file transfer represents the biggest growth opportunity for the SSH Tectia solution. While most companies already secure their system administration connections, files are still commonly transferred in plaintext in enterprise networks without encryption. Especially the legislations and regulations such as SOX have increased the pressure to secure file transfers. During 2005, secure file transfer became an increasingly important application area for SSH Tectia.

To exploit the market opportunity related to secure file transfer, SSH introduced in September 2005 the new SSH Tectia Client (F) and Server (F) products, optimized for secure file transfers. In Q4, SSH has begun implementing a global marketing campaign that specifically targets IT decision makers responsible for

*"SSH and a leading European software company signed a licensing agreement that allows the client to deploy centrally managed secure communications based on SSH Tectia in its IT infrastructure."*

file transfers and system administration. The positive response generated by the campaign indicates that there are new secure file transfer projects starting in all regions. This trend was also reflected in the growing sales pipeline during the year.

With SSH Tectia Server for IBM mainframes, launched in mid-2005, SSH Tectia enterprise customers can now easily secure file transfers between workstations and Windows, Unix, or Linux Servers, and back-office mainframe systems. Many large customers have expressed interest in this use case, and have evaluations underway.

SSH's rivals in the field of secure file transfers are mostly the same as in secure system administration. In addition, indirect competitors include enhanced file transfer vendors such as Sterling Commerce and Tumbleweed.

## Secure application connectivity

SSH Tectia can also be used for protecting application connections between workstations and application servers. During 2005, secure application connectivity began to make a small contribution to the overall SSH Tectia sales. But during the latter half of the year, SSH closed its first large secure application connectivity deal, and has dozens of evaluations underway at key customers.

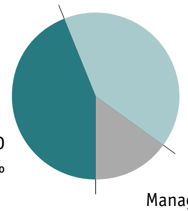
SSH Tectia Server for IBM mainframes, launched in mid-2005, strengthened the


secure application connectivity offering of SSH Tectia. With the new product, enterprise customers can secure application connections also between workstations and back-office mainframe systems. SSH Tectia avoids the major expenses and delays of major rewrites of applications, often required with competing solutions based on other security architectures. Especially banks and other financial institutions expressed interest towards this use case, as bank personnel commonly use their Windows workstations to access sensitive financial customer information centrally stored in the mainframe.

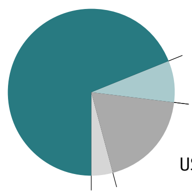
In secure application connectivity, SSH competes indirectly against SSL VPN (Virtual Private Networks) software and built-in security features of application software.

# Responsible business operations are based on values

Employe distribution
by business area




Employee distribution
by geographical area




SSH employees have defined three shared values for responsible company operations: Select, Solve, and Honor. The company 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 data security solutions.

SSH aims for lasting cooperation based on a platform of mutual respect, reliability, and transparency.

## Open interaction with stakeholders

SSH is an international player whose products are used almost throughout the world. SSH respects the cultures, customs, and values of in 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 employee 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 and committed employees support the company's aim of being a globally leading provider of end-to-end communications security solutions. The company's future prosperity goes strongly hand in hand with the skills and innovation of its employees. Our HR policy seeks to ensure that 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. The interaction is supported through

# *Select, solve and honour*

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.

## Continuous skills development supports success

The rapid pace of technological progress requires continuous learning and 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.

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

## Employee structure

SSH's people are highly educated. Seventy-three percent of the employees have a university degree. The company will continue to take on board highly educated people. In 2005, 52 employees worked in Finland, 6 elsewhere in Europe, 14 in the US, and 3 in Japan. Women accounted for 17 employees and men for 58. SSH employees have an average age of 37 years. A total of 33 employees worked in R&D, 31 in sales and marketing, and 11 in administration.

In 2005, the new direction and development in business operations affected the number of employees per unit. The number of employees in the customer interface was increased and reductions were made in administration and business preparation. Development resources for the main products remained at the required level and projects outside the scope were cut. In 2006, employee recruitment and development will take place according to business developments.

## Healthy working environment contributes to well-being at work

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.

*Mainframe users showed great interest in the new SSH Tectia solution for IBM mainframes.*

In March 2005, the company headquarters moved to Pitäjänmäki, Helsinki. The modern premises for all employees on one floor have improved communication between units and staff cooperation.

A working environment survey conducted in December 2005 showed that overall employee satisfaction was 3.7, measured on a scale from 1-5. The survey showed persons working in product development and administration as having the highest job satisfaction. An interesting job, team activity and fair compensation were the factors most impacting on job satisfaction and workplace well-being.

## 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 to draw up personal targets and development plans. Other reward schemes are linked to the achievement of targets.

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.

## SSH takes responsibility for the environment

SSH's environment policy seeks to ensure that the company is a good corporate citizen that meets statutory obligations, promotes recycling and reduces overall waste. The company sorts and recycles all recyclable materials.


Finally, Enterprise-Class Secure Shell
for IBM Mainframes!
Secure Mainframe Connectivity
with SSH Tectia
To find out more about
SSH Tectia for IBM
mainframes, go to
www.ssh.com/zjournal/
ssh tectia

# Corporate governance

The SSH Group comprises SSH Communications Security Corp (SSH) and its subsidiaries. SSH Communications Security Corp is registered in Helsinki, Finland and is a publicly listed company. Its subsidiaries are SSH Communications Security, Inc. (US), SSH Communications Security K.K. (Japan), and SSH Operations Plc that operates in Finland, UK, and Germany.

SSH abides by its bylaws, principles of sound corporate governance, and high ethical standards in its governance and decision-making. The Company complies with the Finnish Companies Act and securities market legislation, the rules of the Helsinki Stock Exchange, and the joint recommendations of the Helsinki Stock Exchange, the Helsinki Chamber of Commerce, and the Confederation of Finnish Industries regarding corporate governance of publicly listed companies.

## Shareholders' meeting

Ultimate decision-making power at SSH is vested in the shareholders' meeting. The Annual General Meeting is held within six months of the completion of the Company's fiscal year, at a time decided by the Board. It decides the number of members of the Board of Directors, and appoints the members. Additionally, under the Finnish Companies Act, the Annual General Meeting 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 shareholders' meetings.

The documents relating to matters scheduled for consideration at the Annual General Meeting, are available for inspection in advance at the Company's headquarters in Helsinki. Shareholders are invited to the Annual General Meeting by the publication of an invitation in at least one newspaper decided upon by the Board, or by sending invitations to the addresses listed in the shareholder register. The invitation to the Annual General Meeting and the Board's proposals to the Annual General Meeting, are published as a stock exchange release and on the Company's website. The Company makes every effort to choose a suitable venue for the Annual General Meeting to enable as many shareholders as possible to attend, and thus participate in the decision-making.

The Company's CEO and usually all Board Members attend the Annual General Meeting. 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 the shareholders.

SSH's shareholders are entitled to make proposals to the shareholder's meeting within the limits of the Finnish Companies Act. Additionally, shareholders can send management comments, questions and proposals by e-mail to ir@ssh.com. These messages will be replied to within the limits of business and Company secrets.

## Board of Directors

In accordance with the Company's Bylaws, the Annual General Meeting appoints three to eight Board members. Their term of office ends with the closing of the Annual General Meeting following their appointment. The Board has a quorum when more than half of its members are present. The Company's Bylaws do not restrict the members' terms of office or present any specific selection criteria for members. The Board elects a chairperson from among its members.

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 the Finnish Companies Act 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 monitors 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 on 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.

### Board composition

SSH's Board of Directors consists of four members whose term of office started on April 26, 2005. In 2005, the major shareholders informed the Annual General Meeting in advance of the Board members they were proposing for appointment. The Company published a stock exchange release on this prior to the Annual General Meeting.

*Tapio Kallioja*, born 1948, MSc (Tech)
Board member since 2001
President, SWelcom Oy
Tapio Kallioja has 25 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.
Owns 2,000 SSH shares and 2,000 stock options.

*Tomi Laamanen*, born 1968, DSc (Tech), PhD (Econ & Bus Admin)
Board member since 2001, Chairman of the Board since September 21, 2001
Professor at Helsinki University of Technology
Tomi Laamanen is Professor at the Institute of Strategy and International Business at the 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 Emtele Oy and SystemsGarden Oy, and a member of the Board of Halton Oy, HPY Research Foundation and the Strategic Management Society of Finland.
Owns 22,000 SSH shares and 4,000 stock options.

*Timo Ritakallio*, born 1962, LLM, MBA
Board member since 2003
First Executive Vice President, OKO Bank
Timo Ritakallio has 20 years of experience in various positions in the finance and banking sectors, and in the capital markets.
Mr. Ritakallio is 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 Ab.
Owns 8,000 SSH shares.

*Tatu Ylönen*, born 1968, LicSc (Tech)
Board member since 1995
Major shareholder, CTO until September 30, 2004
Tatu Ylönen developed the 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.
Owns directly 14,727,649 SSH shares and 375,071 shares indirectly through Tatu Ylönen Oy.

Since SSH's operations focus on one area of business and the Company is small by international standards, a four-member board is considered large enough to effectively manage the Board's responsibilities.

The majority of the Board members have no dependence on the Company. Tapio Kallioja, Tomi Laamanen and Timo Ritakallio are deemed to be independent Board members. 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 responsibilities

The Board works to a predetermined agenda. The themes to be considered in future meetings, and the Board's agenda, are planned at the start of each new term of office. During the spring, the agenda focused on outlining strategic policies and updating the corporate strategy. In the autumn, the focus was on tactical matters, and in November the budget for 2005 was approved. Meetings in the early spring focus on preparations for the Annual General Meeting.

The members of the Board receive regular updates on the Company's business and financial performance. In the Board meetings, the CEO, the Chairman of the Board or another person appointed by the CEO, presents business to be considered to the Board. Each Board meeting considers a progress report provided by the CEO in line with the standard agenda. All Board meetings also monitor sales performance, market development and the Company's financial performance. The Company's General Counsel acts as secretary to the Board. In addition to the secretary and the CEO, the CFO and director responsible for US operations also attend Board meetings.


*Tapio Kallioja*


*Tomi Laamanen*


*Timo Ritakallio*


*Tatu Ylönen*

SSH's Board of Directors convened 13 times in 2005. The average attendance rate of Board members was 96 percent.

The Board evaluates its operations and processes to increase efficiency and quality. Internal self-evaluation is conducted once a year.

### *Committees of the Board of Directors*

In a corporation, the proper functioning of the administrative and control systems requires that the work of the Board of Directors 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. SSH's Board of Directors has appointed an Audit Committee, but owing to the scope of the Company's activities, it has not been deemed necessary to establish a separate appointment or remuneration committee.

Tomi Laamanen acts as the Chairman of the Audit Committee. As the CEO, CFO and the auditor participate in the meetings, the Board has deemed one Board member to be sufficient in the Committee. The Committee convenes a minimum of twice a year, and the Board has confirmed the principal responsibilities of the Audit Committee to be the following:

• monitoring the financial performance of the Company
• monitoring the financial reporting (financial statements, interim reports)
• assessing the sufficiency and due form of internal administration and risk management
• ensuring compliance with laws and regulations
• preparing the appointment of an auditor
• communicating with the auditor, studying the auditing plan and the auditor's report.

The Audit Committee convened twice in 2005.

## CEO

SSH's Board of Directors appoints the CEO and decides the terms of his or 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. Prior to that he was Vice President, Sales, South-East Asia, for Nokia Telecommunications (now Nokia Networks). Mr. Vainio owns 130,000 SSH shares and 134,000 stock options.

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 months. Severance payment is equivalent to twelve months' salary.

## Management Team

SSH's Management Team has nine members. The Team is chaired by the CEO. The other members are the directors responsible for business operations and various corporate support functions. The Management Team can be enlarged if this is considered necessary for the business and topic under consideration. The members of the Management Team are all directly subordinate to the CEO, and as such report directly to him.

The Management Team's principal responsibilities are 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 regularly on a weekly basis.

### *Members of the Management Team*

*George F. Adams*, born 1948, MBA, BSEE
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 the US subsidiary. Before joining SSH, Mr. Adams was Vice President of Business Development at Phoenix Technologies Ltd. Mr. Adams had previously held management positions in Sun Microsystems, Intel, Analog Devices, and Motorola.
Owns 162,300 SSH shares and 90,000 stock options.

*Petri Lillberg*, born 1974, MSc (Econ)
Management Team member since 2005
Vice President, R&D and Product Management
Petri Lillberg is responsible for SSH R&D and product management. Mr. Lillberg joined SSH in 1998 and has previously held the positions of Director of Product Management, Sales Director for Europe and Rest of the World, Country Director and Director of business unit.
Owns 7,500 SSH shares and 17,000 stock options.

*Mika Peuranen*, born 1964, MSc (Tech)
Management Team member since 2005
Chief Financial Officer
Mika Peuranen is responsible for SSH's financial and human resources management, IT management and investor relations. Prior to joining SSH, Mr. Peuranen was managing director of the Austrian branch of Finnforest, and was also responsible for Finnforest's financial and administrative activities in the Czech and Slovak Republics, Hungary and Romania. Previously, Mr.. Peuranen held various key positions in accounting and finance at KONE Corporation, both in Finland and in the Netherlands.
No SSH shares, 10,000 stock options.

*Pekka Rauhala*, born 1960, LLM, MBA
Management Team member since 2001
General Counsel
Pekka Rauhala is General Counsel of SSH and its subsidiaries. He also 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.
No SSH shares, 85,000 stock options.

*Timo J. Rinne*, born 1969, MSc (Tech)
Management Team member since 2005
Chief Technology Officer
Timo Rinne is responsible for research, technology strategy, intellectual property management and standardization. Since 1998, Mr.. Rinne has held key roles in the development of all products and technologies throughout the history of SSH. Mr. Rinne has assumed various management positions at SSH including Vice President of Engineering. Prior to joining SSH, Mr. Rinne held research and development positions at the Nokia Research Center.
Owns 10,000 SSH shares and 39,500 stock options.

*Juha Saksi*, born 1963, MSc (Tech), eMBA
Management Team member since 2004
Vice President of Sales, Europe and Asia

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 that, he was responsible for managing sales and marketing at Vaisala Oyj.
No SSH shares, 15,000 stock options.

*Petri Säkkinen*, born 1976, MSc (Tech), MSc (Econ)
Management Team member since 2005
Marketing Director
Petri Säkkinen has global responsibility for marketing of SSH Tectia products. Mr. Säkkinen joined SSH in 1999 and has held R&D project management and product management positions. Prior to joining SSH, Mr. Säkkinen worked as a consultant for planning and implementing automated market information and clearing systems for the Finnish Central Securities Depository.
Owns 5,000 SSH shares and 20,750 stock options.

*Jukka Tuomas*, born 1967, MSc (Tech)
Management Team member since 2005
Director, Services and Customer Fulfillment
Jukka Tuomas is responsible for professional services and software logistics of SSH Tectia products worldwide. Prior to joining SSH in 2004, Mr. Tuomas held marketing, sales and research and development positions at Tellabs. Mr. Tuomas had a key role in planning, customer cooperation and launching of Tellabs's next-generation edge router products.
No SSH shares, 10,000 stock options.

*Arto Vainio*, born 1950, BSc (Econ)
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 Mika Peuranen, CFO, Pekka Rauhala, General Counsel and the CEO of the subsidiary in question. Jean-Bernard Dumerc, CEO, SSH Communications Security K.K., reports on operative matters to the Vice President of Sales.

## 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.

Forms of bonus for SSH's senior management and CEO involve 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.

The bonus scheme for SSH's senior management is based on the Company's net sales and trend in net sales, Company profitability and personal qualitative and quantitative 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 represents 75-85 percent of the overall target. The targets for the Company's senior management are fixed for one year at a time.

*Salaries and remuneration*
*The Board of Directors*

Tapio Kallioja EUR 14,800.00
Tomi Laamanen EUR 14,800.00
Timo Ritakallio EUR 14,800.00
Tatu Ylönen (no salary or remuneration)

*CEO*

Arto Vainio EUR 147,137.00

Neither the members of the Board of Directors nor the CEO were given stock options during the fiscal year. The numbers of shares and stock options held by the members of the Board of Directors, CEO and members of the Management Team are included in their personal profiles.

*Insiders*

SSH has established its own insider guidelines that comply with the Guidelines of Insiders approved for public companies by the Helsinki Stock Exchange. The Company maintains a public insider register of the public permanent insiders and the persons closely associated with the said permanent insiders' share and stock option holdings in the SIRE system of the Finnish Central Securities Depository Ltd. The public insider register and the principles regulating trading by insiders, are available at the company's website and the company's headquarters.

The public permanent insiders of the company are members of the Board, CEO, members of the Management Team, and the auditors. The number of public permanent insiders is currently 16.

The company maintains also a company-specific insider register of persons who by virtue of their position regularly receive insider information or could have an opportunity to gain access to insider information through the nature of their work and who are not in the public insider register. These persons include the assistants to executive management, product management, financial administration, and management of information services.

Insiders belonging to the public or company-specific insider register are not allowed to trade in securities issued by the company for a period of 21 days prior to the announcement of an interim report and the financial statement bulletin (closed window). Trading in securities issued by the company without a separate determination of the company's insider responsible person, is allowed for the said permanent insiders only for a period of 21 days after the announcement of the interim report and the financial statement bulletin of the company (open window).

Under circumstances where the company is preparing an event that may have a significant impact on the stock price, a project-specific insider register is established. Also the project-specific insider register will be based on the insider guidelines of the Helsinki Stock Exchange.

Company's General Counsel is responsible for guidance and supervision of the insider matters.

## Internal administration, risk management and internal auditing

The aim of internal administration and risk management is to ensure efficient, appropriate operations, dependable financial information and compliance with regulations and internal processes. SSH's Board of Directors ensures that the Company has defined principles of internal administration, and that the Company monitors the effectiveness of the administration. The ultimate responsibility for the Company's accounting and supervision lies with SSH's Board of Directors. The Board also approves SSH's risk management and reporting procedures and monitors the adequacy, appropriateness and efficiency of the Company's administrative processes.

The CEO, assisted by other operative management, is responsible for the practical arrangements for accounting and administration mechanisms and for compliance with laws, regulations, Company processes, and the Board's decisions. To support its operations, the Company has a number of rules and guidelines. Process and quality work ensures that there is a description of all processes, and that the various process interfaces are properly defined and documented. Processes are 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. Supervisory actions ensure compliance with rules, guidelines and processes.

The Company sets annual financial targets in connection with the budget and constantly tracks target achievement. The Company's organizational structure supports efficient planning, implementation and monitoring of business operations. Balanced Scorecard measurements ensure that the targets are in balance.

Risk management is a part of SSH's internal administration. It aims to ensure that major risks affecting the Company's business and operating environment are identified and monitored. Since the United States is the main market area, any risks including currency risks, associated with that country are considered to be significant. Other major risks are related to product technology, competitor activities and profitability. Property, business interruption and liability risks are covered by insurance.

SSH's main market area is the United States. To reduce this market dependency risk, the Company is actively seeking to expand operations in Europe. 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. SSH also 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. Corrections are made immediately and updates are supplied to customers without delay. 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 architecture. Encryption and strong authentication protect the Company's confidential telecommunications from both internal and external threats.

Finance risk management is described separately in the financial statements section of the Company's annual report. SSH provides no financing for its customers other than by granting normal payment periods. The Company has a strong balance sheet and no significant long-term liabilities. Asset managers invest the Company's cash reserves in accordance with a policy approved by the Board of Directors: almost all the assets under management are invested in fixed income funds. Since most of SSH's invoicing takes place in US dollars, the Company is hedged against exchange rate risks.

Because of the scope of its activities, SSH has no separate internal audit organization. The continuous monitoring by the auditors in conjunction with the interim reports also aims to assess and develop the effectiveness of risk management, monitoring and administration processes, and to support the Board with its monitoring responsibility.

### *Auditors*

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.

In accordance with the Company Bylaws, SSH has one Principal Auditor authorized by the 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 auditors are appointed at the Annual General Meeting. SSH's auditor is PricewaterhouseCoopers Oy with Henrik Sormunen APA as principal auditor.

The auditor's fees for 2005 were EUR 56,165 in the Group and EUR 51,784 in the parent company. Other fees charged by the firm of auditors were EUR 86,082 in the Group and EUR 23,191 in the parent company. Other fees were mostly related to tax advice and the adoption of IFRS.

### *Communication*

SSH aims to give the markets a clear view of the Company's operations and financial performance in accordance with the regulations on the disclosure obligation for publicly listed companies. The Company prefers electronic forms of communication. All stock market releases, other investor information and latest Company information is available at the SSH website.

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SSH Communications Security Corp

# IFRS – Compliant Financial Statements 05

# *Contents*

# Report of the Board of Directors for Jan. 1 – Dec. 31, 2005

## Net sales

Consolidated net sales for January–December totaled EUR 9.3 million (EUR 8.2 million), up by 13.0 percent, year on year.

Fourth-quarter net sales were EUR 4.1 million, showing a year-to-year improvement of 115.8 percent.

During the report period, SSH continued the systematic implementation of its strategy based on the SSH Tectia solution, primarily aimed at large enterprises, financial institutions, and government agencies, with almost all of its sales reported for the period stemming from these customer categories.

Since the majority of SSH's invoicing is based on the U.S. dollar, the dollar's exchange rate has a fundamental effect on consolidated net sales. During 2005, the U.S. dollar's average exchange rate had no significant difference to the year 2004.

## Results and expenses

Operating loss for January–December amounted to EUR 2.6 million (2004: a loss of EUR 6.4 million), with net loss totaling EUR 2.0 million (a loss of EUR 5.9 million).

Operating profit for the fourth quarter amounted to EUR 1.0 million (a loss of EUR 1.7 million), while net profit improved to EUR 1.0 million (a loss of EUR 1.7 million).

SSH's fixed costs reported for the period continued their year-to-year decline, as evidenced by the reduction of approximately EUR 2.7 million in fixed costs from the January–December 2004 level. About 30 percent of this overall reduction resulted from cuts in payroll costs and 70 percent from decreases in other operating expenses. The relocation of the company's headquarters from Helsinki city center to Pitäjänmäki reduced annual rental costs by EUR 0.3 million beginning in the third quarter.

Research and development expenses for the report period totaled EUR 3.4 million (EUR 3.8 million), while sales and marketing expenses came to EUR 6.7 million (EUR 8.5 million) and administrative expenses EUR 1.9 million (EUR 2.4 million).

Fourth-quarter research and development expenses totaled EUR 0.8 million, compared with EUR 0.9 million a year earlier. Sales and marketing expenses in Q4 came to EUR 1.9 million (EUR 2.2 million), and administrative expenses totaled EUR 0.4 million (EUR 0.6 million).

Since January 1, 2005, SSH has applied IFRS 2 (Share-based Payment) to its stock options, which were granted after November 7, 2002, and had not vested prior to January 1, 2005. IFRS 2's effect on the 2004 comparatives is insignificant.

The parent company has recognized an impairment loss at EUR 4.5 million of its receivables from SSH Inc, a wholly owned subsidiary. The entry has no effect in the consolidated financial statements.

## Balance sheet and Financial position

The financial position of SSH remained at a healthy level during the report period. The consolidated balance sheet total on December 31, 2005 stood at EUR 29.1 million (EUR 38 million), of which liquid assets accounted for EUR 22.5 million (EUR 33.9 million), or 77 percent of the balance sheet total. The group has no long-term liabilities.

In May 2005, SSH paid out EUR 8.1 million in dividends.

On December 31, 2005, gearing, or the ratio of net liabilities to shareholders' equity, was -88.4 (-94.8) and the equity ratio stood at 92.8 percent (94.8 percent).

The reported gross capital expenditure for the period totaled EUR 0.1 million (EUR 0.5 million), consisting mainly of equipment purchases. Reported financial income came mainly from capital gains on fund shares. Financial income and expenses totaled EUR 0.6 million, compared with EUR 0.5 million a year ago.

During January-December, SSH reported a negative cash flow of EUR 3.5 million from business operations, whereas investments showed a positive cash flow of EUR 10.9 million. EUR 10.9 million as a result of the selling of fund units. Cash flow from financing was negative, EUR 8.4 million, including the dividends paid in May. SSH had a negative total cash flow of EUR 1.0 million during the period.

## Market developments

The number of invitations to tender from, and projects pending among, SSH's customers – large enterprises, financial institutions and government agencies – continued significant growth in the report period.

Legislative reforms concerning data confidentiality and secure data communication are occurring in the United States, Japan 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. Recent surveys conclude that large enterprises are finding it more difficult to protect their networks and businesses from sophisticated worms and backdoor-based network attacks, while at the same time, new regulations and audit requirements increase significantly companies' and their officers' responsibilities for data security and risk management.

SSH Tectia's features and management capabilities align well with these trends and resulting requirements. SSH is confident that both customers' own internal data security programs and legislative reforms will continue driving the growth of demand for all SSH Tectia products.

We have noticed that the data security models and policies of our largest customers in the USA will start spreading in phases to Europe and Asia, expanding in this way the demand for our products in all markets. Secure remote management of the IT infrastructure, secure file transfers and protection of critical business applications will continue demanding significant new investments in 2006 and coming years all over the world.

The IETF (Internet Engineering Task Force), the body that governs the Internet standardization, recently announced that Secure Shell protocol specifications have reached Proposed Standard status. SSH is the original developer of the Secure Shell technology. This is a significant milestone for us, as SSH Tectia is based on the Secure Shell technology, and the standardization promotes much wider use for all product based on Secure Shell.

In SSH's main market area, North America, demand focused primarily on solutions for secure remote management of network servers and various kinds of data communication equipment. SSH Tectia Manager is now included in practically all new major SSH Tectia installations and upgrades of earlier installations. In addition, rules in Section 404 of the Sarbanes-Oxley Act in the U.S. have begun to increase SSH's target customers' data security plans and the related investment plans and budgets.

From SSH's viewpoint, the European customers continue to pursue a very cautious investment policy, although the pressures of the new data security regulations and risks became visible in the growing active sales case base during the second half of 2005. Product launches made by SSH in early 2005 have attracted growing interest in the SSH Tectia solution in Europe, with Germany, the U.K., and the Nordic countries continuing to be the most promising market areas for SSH.

In Japan, a new law on the distribution and storage of personal data is expected to increase both public and private sector investments in data security.

During 2005 development of the competition in the markets developed favorably for SSH Tectia. The new tighter data security regulations caused many customers to re-assess the risk and hidden costs of their OpenSSH -based deployments. This gave reasons to many customers to start phase-by-phase migration programs to deploy fully commercially supported products, such as SSH Tectia.

## Sales performance

| SSH'S NET SALES<br>EUR million | 10–12/2005 | 7–9/2005 | 4–6/2005 | 1–12/2005 | 10–12/2004 | 1–12/2004 |
|---|---|---|---|---|---|---|
| **BY SEGMENT*** | | | | | | |
| AMER | 3.3 | 1.8 | 0.8 | 6.8 | 1.4 | 5.7 |
| APAC | 0.1 | 0.2 | 0.1 | 0.7 | 0.2 | 0.6 |
| EROW | 0.7 | 0.3 | 0.3 | 1.8 | 0.3 | 2.0 |
| SSH Group total | 4.1 | 2.4 | 1.2 | 9.3 | 1.9 | 8.2 |
| **SSH TECTIA BUSINESS** | | | | | | |
| Net sales | 4.1 | 2.4 | 1.2 | 9.3 | 1.9 | 8.2 |

* The sales process for a system-level product for major customers is a long one. In line with its strategy, SSH aims at a major increase in the average size of contracts. Due to sales processes with major customers being particularly slow and substantial growth occurring in the size of future contracts, the future is likely to see major fluctuations in sales from quarter to quarter.

The Americas, the Asia Pacific region, and the 'Europe and Rest of the World' market area accounted for 73 percent (70 percent), 8 percent (7 percent) and 19 percent (23 percent) of reported net sales, respectively.

During the report period, SSH concluded a number of new customer agreements, ten of which were each worth more than EUR 100,000, with three completed in the fourth quarter. The ten largest customers accounted for 41 percent of reported net sales, with the largest single customer accounting for approximately 22 percent.

## Products and marketing

During the report period, SSH focused its sales and marketing efforts on large enterprises, financial institutions, and government agencies in the U.S., 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.

During the year 2005, as several new regulations began to solidify our customers' plans and requirements, SSH was able to execute several specific marketing and product programs to satisfy the needs of the growing demand. Successfully validated new product deployments by our largest US customers have also generated good responses from target customers in Germany and the U.K.

SSH started to deliver the new-generation Secure Shell products launched early in 2005. The company's new Tectia Secure Shell product for the IBM mainframe environment made SSH Tectia the most extensive integrated Secure Shell–based solution on the market. In September, SSH secured the first major deal comprising the new IBM mainframe products, and by the end of the year received additional orders from four different customers for the IBM mainframe products.

2005 marked the 10th anniversary of the Secure Shell technology developed by SSH – Tatu Ylönen launched the first version of the Secure Shell protocol on July 12, 1995. The Secure Shell protocol is the basis of the SSH Tectia solution.

## Research and development

Research and development expenses for January-December totaled EUR 3.4 million (EUR 3.8 million), the equivalent of 36.8 percent of net sales (46.4 percent).

R&D expenses capitalized during the report period totaled EUR 0.09 million. These expenses related to the commercialization of the SSH Tectia Server (M) solution.

At the end of September, the company held 11 patents and 12 were pending.

## Business risks

Risk management is part of SSH`s control system. The purpose of risk management is to recognize and monitor significant risks relating to the Company's operations and business environment. The company operates on the fast evolving markets of data security software.

The IT-market as a whole and especially changes in the market of data security software affect directly the Company's business risks. The main market area is USA, whose market and currency risk is significant. Other significant risks relate to product technology, competitors´ activities and profitability.

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. Risks regarding property, interruptions and liability accidents are protected with insurances.

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's critical information systems are secured. SSH actively uses its own products to protect its own information system infrastructure. Encryption and strong authentication protect the Company's confidential telecommunications.

The Company provides no financing for its customers other than by granting normal payment periods. The consolidated balance sheet structure is strong and has no significant long-term liabilities recorded. 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. Since most of SSH's invoicing and purchasing takes place in US dollars, the Company has hedged against exchange rate risks.

## Environment

SSH bears responsibility for the environment. SSH's environmental policy seeks to ensure the company meets statutory obligations, promotes recycling and reduces overall waste. The Company sorts and recycles all materials that are recyclable or to be destroyed.

## Human resources and organization

At the end of December, the Group had 75 employees on its payroll, down by 30 from the previous year's number, a decrease of 28.6 percent. Of the employees 52 were based in Finland, 6 elsewhere in Europe, 14 in the USA and 3 in Japan.

The average age among the employees was about 37. 73 percent has an academic degree. 23 percent of the employees were women and 77 percent men. At the end of the period 33 employees worked in R&D, 31 in sales and marketing, and 11 percent in corporate administration.

## Board and Auditors

The Annual General Meeting (AGM) on April 26, 2005, re-elected Tapio Kallioja, Tomi Laamanen, Timo Ritakallio and Tatu Ylönen to SSH Communications Security Corp.'s Board of Directors, with Laamanen re-elected as chairman.

The AGM again elected to have PricewaterhouseCoopers Oy, authorized public accountants, as the company's auditor, with Henrik Sormunen, authorized public accountant, acting as the principal auditor.

## Per share data

| Per share data | Jan. 1, 2005 – Dec. 31, 2005 | Jan. 1, 2004 – Dec. 31, 2004 | Jan. 1, 2003 – Dec. 31,2003 | Jan. 1, 2002 – Dec. 31, 2002 | Jan. 1, 2001 – Dec. 31, 2001 |
|---|---|---|---|---|---|
| | **IFRS** | **IFRS** | **IFRS** | **FAS** | **FAS** |
| Earnings per share (Group), EUR | -0.07 | -0.21 | 0.20 | -0.49 | -0.15 |
| Earnings per share (Group) considering dilution effect, EUR | -0.07 | -0.21 | 0.19 | -0.48 | -0.15 |
| Earnings per share (company), EUR | -0.07 | -0.21 | 0.20 | -0.29 | -0.14 |
| Shareholders' equity per share (Group), EUR | 0.90 | 1.26 | 1.49 | 1.30 | 1.82 |
| Dividends | 0 | 8,149,930 | 0 | 0 | 0 |
| Dividend per share, EUR | 0.00 | 0.29 | 0.00 | 0.00 | 0.00 |
| Dividend pay-out ratio, % | - | - | 0.0 | - | - |
| Effective dividend yield, % | 0.0 | 22.7 | 0.0 | 0.0 | 0.0 |
| Adjusted average number of shares during the period, thousands | 28,166 | 28,014 | 27,728 | 27,702 | 27,379 |
| Adjusted average number of shares at the end of the period, thousands | 28,269 | 28,102 | 27,736 | 27,714 | 27,691 |
| Adjusted average number of shares considering dilution effect, thousands | 28,614 | 28,457 | 28,506 | 28,133 | 28,212 |
| Price per earnings ratio (P/E) | - | - | 8.5 | - | - |
| Market capitalization, EUR million | 34.8 | 36.0 | 47.2 | 20.8 | 84.5 |
| Share performance in Helsinki Exchanges, EUR | | | | | |
| Average price | 1.23 | 1.69 | 1.31 | 1.66 | 7.06 |
| Share price, period-end | 1.23 | 1.28 | 1.70 | 0.75 | 3.05 |
| Lowest | 0.91 | 1.18 | 0.61 | 0.60 | 2.30 |
| Highest | 1.78 | 2.69 | 2.36 | 3.70 | 15.99 |
| Volumes of shares traded, million | 11.4 | 9.3 | 7.6 | 4.3 | 8.4 |
| Volumes of shares traded, % | 40.5 | 33.3 | 27.5 | 6.9 | 5.5 |
| Volumes of shares traded, EUR million | 14.0 | 15.8 | 10.0 | 7.1 | 59.4 |

## Shares, shareholding and changes in the Group structure

The reported trading volume of SSH Communications Security Corp. shares totaled 11,446,877 (valued at EUR 14,006,051.89); i.e. 40.49 percent of the shares changed hands. The highest quotation was EUR 1.78 and the lowest EUR 0.91. The trade-weighted average share price for the period was EUR 1.23, and the share closed at EUR 1.23 (December 30, 2005).

There were no substantial changes in SSH Communications Security Corp.'s shareholding information during the report period. Tatu Ylönen and Tero Kivinen are the largest shareholders. The former holds, directly and through his company, Tatu Ylönen Oy, 53.4 percent of the company's shares, and Kivinen holds 6.8 percent. There were no changes in the group structure during the period.

## Share capital and board authorizations

The company's registered share capital on December 31, 2005 was EUR 848,064.39, consisting of 28,268,813 shares. During the report period, SSH increased its share capital five times, based on subscription to the new shares under SSH's stock-option plan. In total, 126,750 new SSH shares were subscribed to under the I/1999 stock-option plan, 39,521 shares under the I/2003 stock-option plan and 1,000 shares under the II/2003 stock-option plan, respectively. With these subscriptions the company's share capital was increased by EUR 5,018.13.

The SSH Annual General Meeting of April 26, 2005 authorized the Board of Directors to decide by April 26, 2006, to increase the share capital through a rights issue and/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.

## Events after the balance sheet date

SSH has nothing to report regarding events after the balance sheet date.

## Prospects

Thanks to growth in tenders, new customers and new products, the year 2006 is expected to show a markedly better performance compared to 2005. SSH aims to be a profitable company in 2006.

The execution of our new SSH Tectia strategy has now a good start. The recent large orders in the US and Europe mark the validation of the SSH Tectia breakthrough to profitability and verify the suitability of the solution for the most demanding large target customers.

Our backlog of active large sales cases is now remarkably larger than year ago and continues to grow. Accordingly, good growth prospects are available to us in 2006 and beyond. As the new regulations and risks continue driving our customers to increase their investments for better data security, we expect to see continued growth of the demand in all markets. We also believe that the trends driving the need for increasing internal data security in large enterprises will continue to grow, and will spread in phases to all our target customers in USA, Germany, the U.K. and Japan.

Due to the large size of individual orders and uncertainty of timing, the actual quarterly revenue may vary substantially, although the management of the active sales prospect base will help compensate for the impact of single large orders within a quarter.

## Board proposals to the annual general meeting

The Group has no net profits distributable to the shareholders. The board of directors proposes that no dividend will be distributed. It is proposed that the loss of the financial year shall be entered to the shareholders' equity. The board will also give a proposal to decrease the share premium fund and distribute the funds partly to the shareholders.

## Key financial indicators

| Key financial indicators | Jan. 1, 2005 – Dec. 31, 2005 | Jan. 1, 2004 – Dec. 31, 2004 | Jan. 1, 2003 – Dec. 31, 2003 | Jan. 1, 2002 – Dec. 31, 2002 | Jan. 1, 2001 – Dec. 31, 2001 |
|---|---|---|---|---|---|
| | **IFRS** | **IFRS** | **IFRS** | **FAS** | **FAS** |
| Net Sales, EUR | 9,296,985 | 8,229,959 | 13,850,908 | 16,801,298 | 19,851,478 |
| Operating profit/loss, EUR | -2,645,377 | -6,398,988 | 5,172,620 | -14,066,158 | -6,721,456 |
| % of net sales | -28.5 | -77.8 | 37.3 | -83.7 | -33.9 |
| Result before extraordinary items, appropriations and taxes, EUR | -2,015,209 | -5,857,895 | 5,525,405 | -13,601,275 | -4,121,344 |
| % of net sales | -21.7 | -71.2 | 39.9 | -81.0 | -20.8 |
| Result before taxes, EUR | -2,015,209 | -5,857,895 | 5,525,405 | -13,601,218 | -4,121,344 |
| % of net sales | -21.7 | -71.2 | 39.9 | -81.0 | -20.8 |
| Return on equity, % | -6.6 | -15.4 | 14.4 | -31.7 | -7.9 |
| Return on investments, % | -6.4 | -13.6 | 16.3 | -30.0 | -7.1 |
| Net interest-bearing debt, EUR thousands | -22,485 | -33,522 | -36,489 | -34,456 | -44,386 |
| Gearing, % | -88.4 | -94.8 | -88.7 | -95.8 | -89.0 |
| Equity-to-assets ratio, % | 92.8 | 94.8 | 94.7 | 88.7 | 90.1 |
| Capital expenditure, EUR | 83,174 | 460,038 | 860,130 | 478,455 | 1,390,589 |
| % of net sales | 0.9 | 5.6 | 6.2 | 2.6 | 7.0 |
| Research and development expenditure, EUR | 3,423,873 | 3,843,119 | 5,200,973 | 8,232,005 | 8,328,745 |
| % of net sales | 37.4 | 49.9 | 39.0 | 49.0 | 42.0 |
| % of net sales (without investments) | 36.8 | 46.7 | 37.4 | 49.0 | 40.7 |
| Personnel, average | 83 | 105 | 131 | 166 | 182 |
| Personnel at the end of the period | 75 | 105 | 104 | 147 | 181 |

# Consolidated income statement

| **Income statement** | **Notes** | **Jan. 1 – Dec. 31, 2005** | **Jan. 1 – Dec. 31, 2004** |
|---|---|---|---|
| **NET SALES** | | **9,296,985** | **8,229,959** |
| Purchasing and production costs | | 85,496 | 149,317 |
| **GROSS MARGIN** | | **9,211,489** | **8,080,641** |
| Other operating income | | 240,566 | 293,638 |
| Expenses | 1.. 2. | | |
| Product development costs | | 3,423,813 | 3,843,120 |
| Sales and marketing costs | | 6,737,725 | 8,526,412 |
| Administration costs | | 1,935,894 | 2,403,735 |
| **OPERATING PROFIT/LOSS** | | **-2,645,377** | **-6,398,988** |
| Financial income and expenses (net) | 3. | 630,168 | 541,092 |
| **PROFIT/LOSS BEFORE TAXES** | | **-2,015,209** | **-5,857,895** |
| Taxes | 4. | -1,177 | -21,098 |
| **PROFIT/LOSS FOR THE FINANCIAL PERIOD** | | **-2,016,386** | **-5,878,994** |
| Earnings per share (undiluted) | | | |
| (EUR per share) | 5. | -0.07 | -0.21 |
| Earnings per share (diluted) | | | |
| (EUR per share) | 5. | -0.07 | -0.21 |

# Consolidated balance sheet

| **Balance sheet** | **Notes** | **Dec. 31, 2005** | **Dec. 31, 2004** |
|---|---|---|---|
| **ASSETS** | | | |
| **FIXED AND NON-CURRENT ASSETS** | | | |
| Tangible assets | 6. | | |
| Machinery and equipment | | 151,782 | 237,546 |
| Other tangible assets | | 3,598 | 204,986 |
| Tangible assets, total | | **155,380** | **442,532** |
| Intangible assets | 7. | | |
| Intangible rights | | 424,600 | 700,968 |
| R&D expenses | | 143,020 | 181,296 |
| Intangible assets, total | | **567,620** | **882,265** |
| Deferred tax assets | 8. | 244,960 | 245,415 |
| **FIXED AND NON-CURRENT ASSETS, TOTAL** | | **967,960** | **1,570,211** |
| **INVENTORIES AND CURRENT ASSETS** | | | |
| Inventories | 9. | **1,365** | **5,824** |
| Current receivables | 10. | | |
| Accounts receivable | | 4,893,764 | 1,229,572 |
| Other receivables | | 202,826 | 860,000 |
| Prepaid expenses and accrued income | | 471,499 | 468,171 |
| Current receivables, total | | **5,568,089** | **2,557,743** |
| Investments | 11. | | |
| Available-for-sale assets | | 21,087,071 | 31,437,877 |
| Held-to-maturity assets | | 0 | 898,567 |
| Investments, total | | **21,087,071** | **32,336,444** |
| Cash and cash equivalents | | 1,443,920 | 1,515,331 |
| **INVENTORIES AND CURRENT ASSETS, TOTAL** | | **28,100,444** | **36,415,341** |
| **ASSETS, TOTAL** | | **29,068,404** | **37,985,553** |

| **Balance sheet** | **Notes** | **Dec. 31, 2005** | **Dec. 31, 2004** |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | | 848,064 | 843,046 |
| Share premium fund | | 24,448,132 | 24,423,673 |
| Fair value reserve | | 93,974 | 74,222 |
| Unrestricted equity fund | | 15,154,848 | 15,061,398 |
| Retained profit/loss | | -13,086,305 | 851,710 |
| Net profit/loss for the period | | -2,016,386 | -5,878,994 |
| **SHAREHOLDERS' EQUITY, TOTAL** | | **25,442,328** | **35,375,055** |
| **LONG-TERM LIABILITIES** | 12. | | |
| Deferred tax liabilities | | 34,568 | 26,072 |
| Provisions | | 92,232 | 222,135 |
| Long-term financial liabilities | | 46,239 | 330,054 |
| **LONG-TERM LIABILITIES, TOTAL** | | **173,040** | **578,260** |
| **SHORT-TERM LIABILITIES** | 13. | | |
| Advances received | | 1,661,480 | 659,704 |
| Accounts payable | | 253,022 | 167,982 |
| Accrued expenses and deferred income | | 637,766 | 881,552 |
| Other liabilities | | 900,769 | 322,999 |
| **SHORT-TERM LIABILITIES, TOTAL** | | **3,453,037** | **2,032,237** |
| **LIABILITIES, TOTAL** | | **3,626,076** | **2,610,498** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | **29,068,404** | **37,985,553** |

# Consolidated cash flow statement

| Cash flow statement | Jan. 1–Dec. 31, 2005 | Jan. 1–Dec. 31, 2004 |
|---|---|---|
| **Cash flow from operations** | | |
| Sales revenue | 6,954,795 | 8,647,804 |
| Revenue from other operations | 265,703 | 666,417 |
| Payments for operating expenses | -10,728,572 | -12,492,793 |
| Cash flow from operations before financial items and taxes | -3,508,074 | -3,178,572 |
| Interest paid and other financial expenses paid | -236,479 | -645,450 |
| Operating interests and other financial income received | 213,129 | 473,268 |
| **Cash flow from operations** | **-3,531,424** | **-3,350,754** |
| **Cash flow from investments** | | |
| Investments in tangible and intangible assets | -136,499 | -351,486 |
| Investments in other financial assets | 11,001,567 | -1,488,218 |
| **Cash flow from investments** | **10,865,068** | **-1,839,704** |
| **Cash flow from financing** | | |
| Issue premium | 29,477 | 93,904 |
| Repayment of subordinated loan | -245,218 | 0 |
| Paid dividends | -8,149,930 | 0 |
| **Cash flow from financing** | **-8,365,671** | **93,904** |
| **Change in liquid assets/increase (+), decrease (-)** | **-1,032,027** | **-5,096,554** |
| **Liquid assets at beginning of period** | **2,413,898** | **7,556,057** |
| Adjusted translation difference | 62,049 | -45,606 |
| Change in liquid assets | -1,032,027 | -5,096,554 |
| **Liquid assets at end of period** | **1,443,920** | **2,413,898** |

Deviating from the financial statement 2004 only cash and short-term investments held to maturity are included in liquid assets. The company adjusted the comparative data for 2004 in the same way.

# 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 |
|---|---|---|---|---|---|---|
| **2004** | | | | | | |
| **Shareholders' equity Dec. 31, 2003** | **832,074** | **39,340,741** | **0** | **-710,314** | **1,678,712** | **41,141,213** |
| Effect of IFRS2 | 0 | 0 | 18,074 | 0 | -18,074 | 0 |
| **Adjusted shareholders' equity Jan. 1, 2004** | **832,074** | **39,340,741** | **18,074** | **-710,314** | **1,660,638** | **41,141,213** |
| Translation differences | 0 | 0 | 0 | -98,615 | 0 | -98,615 |
| Available-for-sale assets: gain/loss measured at fair value | 0 | 0 | 74,222 | 0 | 0 | 74,222 |
| **Net income/expenses recognized under shareholders' equity** | **0** | **0** | **74,222** | **-98,615** | **0** | **-24,393** |
| Net profit/loss for the period | | | | | -5,878,994 | -5,878,994 |
| **Total income and expenses recognized for the period** | **0** | **0** | **74,222** | **-98,615** | **-5,878,994** | **-5,903,386** |
| Transfer to the other shareholders' equity item | 0 | -15,000,000 | 15,000,000 | 0 | 0 | 0 |
| Subscribed shares based on stock options | 10,972 | 82,932 | 0 | 0 | 0 | 93,904 |
| Effect of IFRS2 | 0 | 0 | 43,324 | 0 | 0 | 43,324 |
| **Shareholders' equity Dec. 31.** | **843,046** | **24,423,673** | **15,135,619** | **-808,929** | **-4,218,355** | **35,375,055** |
| **2005** | | | | | | |
| **Shareholders' equity Jan. 1** | **843,046** | **24,423,673** | **15,135,619** | **-808,929** | **-4,218,355** | **35,375,055** |
| Translation differences | 0 | 0 | 0 | 90,909 | 0 | 90,909 |
| Available-for-sale assets: gain/loss measured at fair value | 0 | 0 | 19,752 | 0 | 0 | 19,752 |
| **Net income/expenses recognized under shareholders' equity** | **0** | **0** | **19,752** | **90,909** | **0** | **110,661** |
| Net profit/loss for the period | 0 | 0 | 0 | 0 | -2,016,386 | -2,016,386 |
| **Total income and expenses recognized for the period** | **0** | **0** | **19,752** | **90,909** | **-2,016,386** | **-1,905,721** |
| Paid dividends | 0 | 0 | 0 | 0 | -8,149,930 | -8,149,930 |
| Subscribed shares based on stock options | 5,018 | 24,459 | 0 | 0 | 0 | 29,477 |
| Effect of IFRS2 | 0 | 0 | 93,450 | 0 | 0 | 93,450 |
| **Shareholders' equity Dec. 31** | **848,064** | **24,448,132** | **15,248,822** | **-718,020** | **-14,384,671** | **25,442,328** |

# Notes to the consolidated financial statements

SSH Group provides enterprise security solutions and end-to-end communications security, and is the original developer of the Secure Shell protocol. SSH sells licenses to its software and provides its customers with maintenance and support services.

The SSH-group consists of SSH Communications Security Corp and its fully owned subsidiaries. SSH Communications Security Corp is domiciled in Helsinki, Finland and is a publicly traded company. The subsidiaries of SSH are SSH Communications Security Inc. (USA), SSH Communications Security K.K. (Japan) and SSH Operations Oy, which has operations in Finland, Germany and Great Britain. SSH Communications Security Corp has its registered office at Valimotie 17, FI-00380 Helsinki.

All stock announcements can be obtained from the company's web pages (www.ssh.com).

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

## Accounting principles

The consolidated financial statements have been prepared in compliance with IFRS (International Financial Reporting Standards).

On January 1, 2004, the Group adopted IFRS and adopted IFRS 2 on January 1, 2005. The Group has adjusted the consolidated financial statement for year 2004 according to the IFRS 2 -standard. The consolidated financial statement for year 2004 already complied with earlier adopted standards. The "Effects of IFRS2 adoption"-section specifies the effects of the IFRS adoption.

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.

## 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.

## Revenue recognition

SSH's net sale derive 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 been otherwise determined.

Sales based on electronic transactions are 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.

## Function-based costs

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

## Government grants

Government grants received are recognized as other operating income.

## 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: | According to the length of the rental agreement, but maximum 7 years 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.

## Intangible assets

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.

Patents and trademarks are expensed as incurred. Costs related to patent applications and trademark registration and their maintenance are expensed as incurred. These expenses are not significant. 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.

## 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 the selling expenses or its value in use, if this value exceeds the selling expenses. 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.

## 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.

## Investments

Since early 2004, the Group has applied IAS 39 "Financial Instruments: Recognition and Measurement".

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 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.

## 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.

## Inventories

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

## Accounts receivable

Accounts receivable are carried at original invoice amount less provision made for impairment of these receivables. The size of the impairment provision is based on an evaluation of all outstanding accounts receivables at balance sheet date. Realized credit losses are written off from the accounts receivables.

## 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.

## 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.

## 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.

## 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 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.

### *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.

SSH applies the share based payment IFRS 2-standard to stock options issued after November 7, 2002 and whose subscription period has not begun before January 1, 2005. These option rights are valued at grant date according to the fair value, which is determined by the Black-Scholes pricing model. The resulting values are recognized as an expense in the Income Statement and divided in even allotments during the vesting period. Expenses regarding other option agreements are not recognized in the Income Statement.

## 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.

### *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.

## New standards

The Group adopted IFRS 2 during 2005. The Group has valid stock option plans for 1999, 2000, 2002 and 2003, applying to all personnel. The Group assumes that accepted standards, which are not yet valid, will have no material effect on its financial statements.

# Financial risk management

## 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, GBP and JPY.

### *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.

## 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.

## 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.

## Effects of IFRS2 adoption

A wages and salaries expense has been recognized in the Income Statement for options issued based on the stock option plan I/2003, warrants B and C, as well as stock option plan II/2003, warrants B, C and D. A total of 371,775 such options have been granted during May 27, 2003–July 27, 2005. The share price on the grant date fluctuated between EUR 0.68 and EUR 1.44 per share. The fair value of the stock option rights varied between EUR 0.18 and EUR 1.02 on the grant dates. The stock option rights have been valued using a volatility rate of 35 percent, a risk-free rate of 3 percent and a dividend rate of 0 percent. The value has been determined using the Black-Scholes pricing model. It has been assumed in the calculations that no reduction in personnel will occur. During the financial year the subscription prices have been reduced by the amount of dividends distributed for the year 2004. The increase in the fair value caused by the subscription price reduction was determined using the above mentioned parameters in the pricing model at the date of reduction and came to EUR 47,321 for the fiscal year. During the financial year 2005 costs of share-based payments were EUR 93,450 and in 2004 EUR 43,324.

**Consolidated income statement Jan. 1-Dec.31, 2004 IFRS-IFRS2**

| Income statement | IFRS Jan. 1–Dec. 31, 2004 | CHANGE | IFRS2 Jan. 1–Dec. 31, 2004 |
|---|---|---|---|
| **NET SALES** | **8,229,959** | | **8,229,959** |
| Purchasing and production costs | -149,317 | | -149,317 |
| **GROSS MARGIN** | **8,080,641** | | **8,080,641** |
| Other operating income | 293,638 | | 293,638 |
| Expenses | | | |
| R&D expenses | 3,822,749 | 20,371 | 3,843,120 |
| Sales and marketing expenses | 8,509,120 | 17,292 | 8,526,412 |
| Administrative expenses | 2,398,074 | 5,661 | 2,403,735 |
| | | 43,324 | |
| **OPERATING PROFIT/LOSS** | **-6,355,663** | | **-6,398,988** |
| Financial income and expenses, (net) | 541,092 | | 541,092 |
| **PROFIT/LOSS BEFORE TAXES** | **-5,814,570** | | **-5,857,895** |
| Taxes | -21,098 | | -21,098 |
| **PROFIT/LOSS FOR THE FINANCIAL PERIOD** | **-5,835,669** | | **-5,878,994** |
| Earnings per share (undiluted) (EUR per share) | -0.21 | | -0.21 |
| Earning per share (diluted) (EUR per share) | -0.21 | | -0.21 |

**Balance Sheet Dec.31, 2004 IFRS-IFRS2**

| Balance Sheet | IFRS Dec. 31, 2004 | CHANGE | IFRS2 Dec. 31, 2004 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Tangible assets | | | |
| Machinery and equipment | 237,546 | | 237,546 |
| Other tangible assets | 204,986 | | 204,986 |
| Tangible assets, total | 442,532 | | 442,532 |
| Intangible assets | | | |
| Intangible rights | 700,968 | | 700,968 |
| Development costs | 181,296 | | 181,296 |
| Other intangible assets | 0 | | 0 |
| Intangible assets, total | 882,265 | | 882,265 |
| Deferred tax | 245,415 | | 245,415 |
| **TOTAL NON-CURRENT ASSETS** | **1,570,211** | | **1,570,211** |
| **CURRENT ASSETS** | | | |
| Inventory | 5,824 | | 5,824 |
| Current receivables | | | |
| Receivables from the Group's companies | 0 | | 0 |
| Accounts receivable | 1,229,572 | | 1,229,572 |
| Other receivables | 860,000 | | 860,000 |
| Prepaid expenses and accrued income | 468,171 | | 468,171 |
| Current receivables, total | 2,557,743 | | 2,557,743 |
| Investments | | | |
| Available-for-sale assets | 31,430,189 | | 31,430,189 |
| Held-to-maturity investments | 906,255 | | 906,255 |
| Investments, total | 32,336,444 | | 32,336,444 |
| Liquid assets | 1,515,331 | | 1,515,331 |
| **CURRENT ASSETS TOTAL** | **36,415,341** | | **36,415,341** |
| **ASSETS** | **37,985,553** | | **37,985,553** |

**Balance Sheet Dec.31, 2004 IFRS-IFRS2**

| Balance Sheet | IFRS Dec. 31, 2004 | CHANGE | IFRS2 Dec. 31, 2004 |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 843,046 | | 843,046 |
| Share premium fund | 24,423,673 | | 24,423,673 |
| Fair value reserve | 74,222 | | 74,222 |
| Unrestricted equity fund | 15,000,000 | 61,398 | 15,061,398 |
| Retained profit/loss | 869,783 | -18,074 | 851,710 |
| Net profit/loss for the period | -5,835,669 | -43,324 | -5,878,994 |
| **SHAREHOLDERS' EQUITY, TOTAL** | **35,375,055** | **0** | **35,375,055** |
| **LONG-TERM LIABILITIES** | | | |
| Deferred tax liabilities | 26,072 | | 26,072 |
| Provisions | 222,135 | | 222,135 |
| Long-term financial liabilities | 330,054 | | 330,054 |
| **TOTAL LONG-TERM LIABILITIES** | **578,260** | | **578,260** |
| **CURRENT LIABILITIES** | | | |
| Advances received | 659,704 | | 659,704 |
| Accounts payable | 167,982 | | 167,982 |
| Accrued expenses and deferred income | 881,552 | | 881,552 |
| Other liabilities | 322,999 | | 322,999 |
| **CURRENT LIABILITIES TOTAL** | **2,032,237** | | **2,032,237** |
| **LIABILITIES TOTAL** | **2,610,498** | | **2,610,498** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | **37,985,553** | | **37,985,553** |

## 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 intra-segment transactions, or at market price.

| **2005**<br>**Income statement** | **EROW**<br>**Jan. 1–**<br>**Dec. 31, 2005** | **AMER**<br>**Jan. 1–**<br>**Dec. 31, 2005** | **APAC**<br>**Jan. 1–**<br>**Dec. 31, 2005** | **Eliminations**<br>**Jan. 1–**<br>**Dec. 31, 2005** | **Group total**<br>**Jan. 1–**<br>**Dec. 31, 2005** |
|---|---|---|---|---|---|
| **NET SALES** | **1,804,307** | **6,832,562** | **660,116** | **0** | **9,296,985** |
| Purchasing and production costs, external | -67,503 | -11,780 | -1,480 | -4,732 | -85,496 |
| **GROSS MARGIN** | **1,736,804** | **6,820,782** | **658,636** | **-4,732** | **9,211,489** |
| Other income | 0 | 0 | 0 | 240,566 | 240,566 |
| Depreciation | -503,924 | -97,979 | 0 | 0 | -601,904 |
| Segment costs | -2,057,777 | -3,166,957 | -495,062 | 0 | -5,719,796 |
| Group-level costs | | | | -5,775,732*) | -5,775,732 |
| **OPERATING PROFIT/LOSS** | **-824,897** | **3,555,845** | **163,573** | **-5,539,898** | **-2,645,377** |
| **SEGMENT ASSETS** | **539,062** | **4,593,533** | **417,940** | **0** | **5,550,535** |
| Unallocated assets | | | | 23,517,869 | 23,517,869 |
| **SEGMENT LIABILITIES** | **1,739,886** | **12,230,883** | **352,317** | **-10,062,822** | **4,260,265** |
| Unallocated liabilities | | | | -634,188 | -634,188 |
| Capital expenditure | 74,304 | 7,682 | 0 | 0 | 81,986 |

| **2004**<br><br>**Income statement** | **EROW**<br>**Jan. 1–**<br>**Dec. 31, 2004** | **AMER**<br>**Jan. 1–**<br>**Dec. 31, 2004** | **APAC**<br>**Jan. 1–**<br>**Dec. 31, 2004** | **Eliminations**<br>**Jan. 1–**<br>**Dec. 31, 2004** | **Group total**<br>**Jan. 1–**<br>**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 | -2,866,181 | -3,418,515 | -381,305 | 0 | -6,666,001 |
| Group-level costs | | | | -7,384,316*) | -7,384,316 |
| **OPERATING PROFIT/LOSS** | **-1,598,504** | **2,085,931** | **189,257** | **-7,075,673** | **-6,398,988** |
| **SEGMENT ASSETS** | **1,415,640** | **1,448,250** | **520,299** | **0** | **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 | 0 | 460,037 |

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

## Notes to the income statement

| Notes to the Income Statement | 2005 | 2004 |
|---|---|---|
| **Other operating income** | | |
| Other operating income also includes EUR 240,000 in product development contributions granted by the National Technology Agency of Finland (TEKES), these contributions amounting to EUR 292,797 in 2004. | | |
| **1. Employee benefits** | | |
| Wages and salaries | 6,295,220 | 6,898,614 |
| Pensions, defined contribution plan | 586,995 | 715,968 |
| Social security expenses | 395,941 | 404,614 |
| Total | 7,278,157 | 8,019,196 |
| The Group applies the defined contribution plan for all pensions. | | |
| Personnel on average during the period | 83 | 105 |
| Personnel at period-end | 75 | 105 |
| **Personnel distribution by business area on Dec. 31** | | |
| R&D | 33 | 42 |
| Sales and marketing | 31 | 47 |
| Administration | 11 | 16 |
| Total | 75 | 105 |
| **Management benefits** | | |
| Managing Directors' salary | 548,725 | 561,552 |
| Board emoluments | 50,400 | 44,400 |
| Termination benefits | 145,200 | 145,200 |
| **2. Depreciation and write-downs** | | |
| **By asset** | | |
| On machinery and equipment | 89,477 | 165,743 |
| Depreciation on financial assets | 54,146 | 26,778 |
| Depreciation on other tangible assets | 65,416 | 83,640 |
| On software | 299,749 | 367,019 |
| On capitalized development expenses | 93,115 | 79,770 |
| Total | 601,904 | 722,950 |
| **By activity** | | |
| On R&D expenses | 250,218 | 262,465 |
| On sales and marketing expenses | 195,604 | 221,172 |
| On administration expenses | 156,082 | 239,313 |
| Total | 601,904 | 722,950 |

| Notes to the Income Statement | 2005 | 2004 |
|---|---|---|
| **3. Financial income and expenses** | | |
| Interest income | 34,675 | 56,912 |
| Gains/losses on available-for-sale assets | 622,511 | 671,503 |
| Gains/losses on derivative contracts | -81,925 | 39,576 |
| Net exchange rate differences | 69,775 | -224,886 |
| Interest on loans | -11,280 | 0 |
| Interest on finance leases | -3,588 | -2,012 |
| Total | 630,168 | 541,092 |
| **4. Direct tax** | | |
| Deferred tax | -1,556 | 0 |
| Other direct taxes | 380 | -21,098 |
| Total | -1,177 | -21,098 |
| Comparison of taxes based on the valid tax rate with those stated in the income statement: | | |
| Profit/loss before taxes, Finland | -2,648,142 | -5,301,813 |
| Profit/loss before taxes, other countries | 632,934 | -556,082 |
| Profit/loss before taxes, total | -2,015,209 | -5,857,895 |
| Tax at 26% (2004: 29%) | -523,954 | -1,698,790 |
| Effect of foreign subsidiaries' differing tax rates | 105,201 | -76,189 |
| Income not subject to tax | 0 | 0 |
| Expenses not deductible for tax purposes | 8,178 | 9,850 |
| Tax assets not recognized for reported losses | 409,020 | 1,765,128 |
| Tax charge | -1,556 | 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. 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. | | |
| Net profit attributable to shareholders | -2,016,386 | -5,878,994 |
| Weighted average number of shares in issue (thousands) | 28,166 | 28,014 |
| Earnings per share (undiluted) (EUR per share) | -0.07 | -0.21 |
| Adjusted average number of shares considering dilution effect (thousands) | 28,614 | 28,457 |
| Earning per share (diluted) (EUR per share) | -0.07 | -0.21 |

## Notes to the Balance Sheet

| Notes to the Balance Sheet | 2005 | 2004 |
|---|---|---|
| **6. Tangible assets** | | |
| **Machinery & equipment** | | |
| Acquisition cost Jan. 1 | 1,209,002 | 1,336,257 |
| Conversion difference | 60,753 | -39,679 |
| Increase | 43,773 | 32,089 |
| Reduction | -233,423 | -119,664 |
| Acquisition cost Dec. 31 | 1,080,104 | 1,209,002 |
| Accumulated depreciation Jan. 1 | 1,094,529 | 1,085,746 |
| Conversion difference | 55,148 | -33,437 |
| Depreciation for the period | 89,477 | 165,743 |
| Conversion difference of depreciation | 1,868 | -4,891 |
| Accumulated depreciation on decrease | -226,993 | -118,631 |
| Accumulated depreciation Dec. 31 | 1,014,030 | 1,094,529 |
| Book value Dec. 31 | 66,074 | 114,472 |
| **Leased assets based on finance leases** | | |
| Acquisition cost Jan. 1 | 149,852 | 0 |
| Increase | 16,781 | 149,852 |
| Acquisition cost Dec. 31 | 166,632 | 149,852 |
| Accumulated depreciation Jan. 1 | 26,778 | 0 |
| Depreciation for the period | 54,146 | 26,778 |
| Accumulated depreciation Dec. 31 | 80,924 | 26,778 |
| Book value Dec. 31 | 85,708 | 123,074 |
| **Total book value of machinery and equipment Dec. 31** | **151,782** | **237,546** |
| **Other tangible assets** | | |
| Acquisition cost Jan. 1 | 530,233 | 557,056 |
| Conversion difference | 81,982 | -40,529 |
| Increase | 0 | 13,706 |
| Reduction | -591,508 | 0 |
| Acquisition cost Dec. 31 | 20,707 | 530,233 |
| Accumulated depreciation Jan. 1 | 325,247 | 268,457 |
| Conversion difference | 50,288 | -19,532 |
| Depreciation for the period | 65,416 | 83,640 |
| Conversion difference of depreciation | 4,073 | -7,318 |
| Accumulated depreciation on decrease | -427,915 | 0 |
| Accumulated depreciation Dec. 31 | 17,110 | 325,247 |
| Book value Dec. 31 | 3,598 | 204,986 |
| **Balance sheet value of tangible assets, Dec. 31** | **155,380** | **442,532** |

| Notes to the Balance Sheet | 2005 | 2004 |
|---|---|---|
| **7. Intangible assets** | | |
| **Software and projects in process** | | |
| Acquisition cost Jan. 1 | 0 | 370,228 |
| Increase | 0 | 0 |
| Reduction | 0 | -370,228 |
| Acquisition cost Dec. 31 | 0 | 0 |
| Book value Dec. 31 | 0 | 0 |
| **Software** | | |
| Acquisition cost Jan. 1 | 1,744,487 | 1,481,287 |
| Conversion difference | 2,347 | -1,191 |
| Increase | 22,620 | 264,391 |
| Reduction | 0 | 0 |
| Acquisition cost Dec. 31 | 1,769,453 | 1,744,487 |
| Accumulated depreciation Jan. 1 | 1,043,518 | 677,269 |
| Conversion difference | 1,408 | -476 |
| Depreciation for the period | 299,749 | 367,019 |
| Conversion difference of depreciation | 178 | -293 |
| Accumulated depreciation on decrease | 0 | 16,646 |
| Accumulated depreciation Dec. 31 | 1,344,853 | 1,043,518 |
| Book value Dec. 31 | 424,600 | 700,968 |
| **Development expenses** | | |
| Acquisition cost Jan. 1 | 261,067 | 0 |
| Increase | 54,839 | 261,067 |
| Reduction | 0 | 0 |
| Acquisition cost Dec. 31 | 315,905 | 261,067 |
| Accumulated depreciation Jan. 1 | 79,770 | 0 |
| Depreciation for the period | 93,115 | 79,770 |
| Accumulated depreciation Dec. 31 | 172,886 | 79,770 |
| Book value Dec. 31 | 143,020 | 181,296 |
| **Balance sheet value of intangible assets, Dec. 31** | **567,620** | **882,265** |

| Notes to the Balance Sheet | | 2005 | 2004 |
|---|---|---|---|
| **8. Deferred tax receivables** | | | |
| beginning | | 245,415 | 243,507 |
| Income statement charge | | -455 | 1,908 |
| At the end of period | | 244,960 | 245,415 |

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 | 7,715,294 | 2012 |
| | 2003 | 436,728 | 2013 |
| | 2004 | 6,179,190 | 2014 |
| SSH Operations Oy | 2004 | 679,577 | 2014 |
| Subsidiary SSH Communications Inc. | 1998 | 24,832 | 2018 |
| | 2000 | 411,131 | 2020 |
| | 2001 | 2,668,620 | 2021 |
| | 2002 | 3,497,020 | 2022 |
| | 2003 | 557,791 | 2023 |
| | 2004 | 848,806 | 2024 |
| Subsidiary SSH Communications K.K. | 2003 | 11,741 | 2010 |
| | 2004 | 38,637 | 2011 |

| **9. Current assets** | **2005** | **2004** |
|---|---|---|
| Finished products/goods | 1,365 | 5,824 |
| Change in inventories included in acquisition cost of sold finished goods | -4,459 | 2,770 |
| **10. Current receivables** | | |
| **Accounts receivables** | 4,893,764 | 1,229,572 |
| **Other receivables** | | |
| Derivative contracts | 0 | 31,891 |
| Prepayments | 129,410 | 97,720 |
| VAT receivables | 73,396 | 131,413 |
| Other current receivables | 20 | 598,976 |
| Total | 202,826 | 860,000 |

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.

| Notes to the Balance Sheet | 2005 | 2004 |
|---|---|---|
| **Prepaid expenses and accrued income** | | |
| Grants | 240,000 | 265,703 |
| Accrued liabilities and deferred income | 154,654 | 68,368 |
| Other prepaid expenses and accrued income | 76,846 | 134,100 |
| Total | 471,499 | 468,171 |
| **11. Investments** | | |
| **Available-for-sale investments** | | |
| Fair value Jan. 1 | 31,437,877 | 29,177,862 |
| Additions/reductions, net | -10,477,799 | 2,171,493 |
| Change in fair value | 126,992 | 88,522 |
| Fair value Dec. 31 | 21,087,071 | 31,437,877 |
| Current | 21,087,071 | 31,437,877 |
| Available-for-sale investments consist mainly of fund units. In 2005, capital gains and losses of EUR 0.6 million on available-for-sale investments were recognized in financial income and expenses. | | |
| Held-to-maturity investments, commercial papers | 0 | 898,567 |

**Notes to shareholders´ equity**

The company's registered share capital on December 31, 2005 came to EUR 848,064.39, consisting of 28,268,813 shares at a nominal per share value of EUR 0.03. SSH has one class of shares. Each share entitles its holder to one vote at the shareholders' meeting.

| Changes in the number of outstanding shares (Jan.1-Dec.31, 2005) | |
|---|---|
| Outstanding shares as per Jan.1, 2005 | 28,101,542 |
| Subscribed shares under I/1999 | 126,750 |
| Subscribed shares under I/2003 | 39,521 |
| Subscribed shares under II/2003 | 1,000 |
| Outstanding shares as per Dec.31, 2005 | 28,268,813 |

The Group has no net profits distributable to shareholders (2004: EUR 8,189,362).

**Share-based payments**

The group has several stock option plans, in which nearly all personnel participate. Each stock option entitles the holder to purchase one SSH share during the subscription period and at a predetermined price according to the stock option plan. SSH's stock option plans are presented in the parent company's financial statements in the "stock option rights" section. SSH adopted the IFRS 2 Share-based payment -standard in the beginning of the financial year. The effects are presented in section "Effects of IFRS 2 adoption".

At the balance sheet date, SSH had 1,566,698 (2004: 1,738,969) stock options outstanding, of which the fully owned subsidiary SSH Operations Oy held 201,849 (2004: 124,129). The weighted average of the remaining subscription period was 3.5 years (2004: 4.0 years). The strike price varies from EUR 0.03 to EUR 14.73 and the remaining subscription period from 2.3 years to 8.8 years.

Average price for exercised stock options during the financial year was EUR 0.18 (2004: EUR 0.26) and they were evenly exercised throughout the year. The weighted average price for SSH's share was EUR 1.23 in 2005 and EUR 1.69 in 2004. The Group collected EUR 29,477 from exercised stock option rights, of which EUR 5,018 (2004: EUR 10,972) was recorded as an addition to the share capital and EUR 24,459 (2004: EUR 82,932) as an addition to the share premium fund.

| **Change in outstanding stock options and in weighted average subscription price** | | **Shares** | **Weighted average exercise price** |
|---|---|---|---|
| **Outstanding stock option rights** | 12.31.2003 | 2,392,763 | 3.05 |
| Granted | | 30,000 | 0.87 |
| Forfeited | | 290,566 | 2.06 |
| Exercised | | 365,732 | 0.26 |
| Expired | | 151,625 | 15.00 |
| **Outstanding stock option rights** | 12.31.2004 | 1,614,840 | 2.70 |
| granted | | 66,000 | 0.80 |
| forfeited | | 148,720 | 1.94 |
| exercised | | 167,271 | 0.18 |
| **outstanding stock option rights** | 12.31.2005 | 1,364,849 | 2.70 |
| | | | |
| **exercisable stock option rights** | 12.31.2004 | 1,050,780 | 3.15 |
| **exercisable stock option rights** | 12.31.2005 | 1,251,199 | 2.87 |

| **12. Long-term liabilities** | **2005** | **2004** |
|---|---|---|
| **Deferred tax liabilities** | | |
| At the beginning of period | 26,072 | 0 |
| Recognized in fair value reserve un-der shareholders' equity | 8,497 | 26,072 |
| At the end of period | 34,568 | 26,072 |

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 (2004: 29 percent).

| **Provisions** | **Restructuring and other agreements** |
|---|---|
| At the beginning of period | 222,135 |
| Additional provisions | 5,390 |
| Reversed provisions | -152,912 |
| Exchange differences | 17,619 |
| At the end of period | 92,232 |

SSH Communications Security Inc. subleased its office in Palo Alto, California, and moved onto new, smaller premises in Los Altos, California. 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 provision regarding royalties repayable to F-Secure Corporation, recorded 2004, has been reversed.

| **Long-term financial liabilities** | **2005** | **2004** |
|---|---|---|
| Finance lease liabilities | 46,239 | 84,836 |
| Subordinated loan, according to Finnish Companies Act | 0 | 245,218 |
| Total | 46,239 | 330,054 |

The subordinated loan, as defined in 1§, Chapter 5 of the Companies Act, issued by the State Treasure/National Technology Agency and held by the parent company, has been fully paid off. The company has entered the interest accumulated on the loan as an annual expense.

| Notes to the Balance Sheet | | 2005 | 2004 |
|---|---|---|---|
| **13. Current liabilities** | | | |
| **Advances received** | | 1,661,480 | 659,704 |
| **Accounts payable** | | 253,022 | 167,982 |
| | | | |
| **Accrued expenses and deferred income** | | | |
| Personnel related | | 638,270 | 828,585 |
| Interest on subordinated loan | | 0 | 30,652 |
| Tax payables | | -504 | 0 |
| Other accrued expenses and deferred income | | 0 | 22,315 |
| Total | | 637,766 | 881,552 |
| | | | |
| **Other liabilities** | | | |
| Personnel related | | 103,310 | 176,599 |
| Finance lease liabilities | | 45,000 | 40,615 |
| VAT liabilities | | 255,586 | -6,590 |
| Derivative financial instruments | | 2,097 | 0 |
| Other current liabilities | | 494,776 | 112,376 |
| Total | | 900,769 | 322,999 |
| | | | |
| **Derivative contracts** | | | |
| Forward exchange contracts | | | |
| Fair value | | 0 | 25,740 |
| Face value | | 0 | 759,705 |
| | | | |
| Currency options | | | |
| Fair value | Sold | 25,064 | -11,187 |
| | Bought | -28,006 | 18,080 |
| Face value | Sold | 4,021,178 | 1,492,537 |
| | Bought | 2,018,619 | 746,269 |
| | | | |
| **Contingent liabilities and other commitments** | | | |
| Rental guarantees (monetary pledge) | | 1,520 | 3,987 |
| Rental guarantees (monetary pledge) given on behalf of SSH Communications Security Inc | | 177,243 | 144,263 |
| Other guarantees | | 678,122 | 587,328 |
| | | | |
| **Operating lease commitments** | | | |
| The future aggregate minimum lease payments under non-cancellable operating leases are as follows: | | | |
| For vehicles and machinery (next year) | | 73,798 | 42,296 |
| For vehicles and machinery (Later than 1 year and not later than 5 years) | | 66,144 | 35,541 |

**Other notes to the balance sheet**

| Group companies and related party transactions | 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 benefits | 2005 | 2004 |
|---|---|---|
| Managing Directors' salary | 548,725 | 561,552 |
| Board emoluments | 50,400 | 44,400 |
| Termination benefits | 145,200 | 145,200 |

As of December 31, 2005, the stock options held by SSH's Board of Directors, CEO, and other members of the Executive Management Team accounted for 27.3 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.

SSH's Board members since 26 April 2005 and President and CEO hold, directly or indirectly through companies they own, around 54.0 percent of Company shares and votes. Board members, President and CEO, and Executive Management Team members held a total of around 54.7 percent of Company shares and votes.

The Company has no other major related party transactions.

# Parent company income statement

| Income statement | Jan. 1–Dec. 31, 2005 | Jan. 1–Dec. 31, 2004 |
|---|---|---|
| **NET SALES** | **5,067,629.96** | **4,354,756.32** |
| Purchasing and production costs | 188,700.24 | 569,661.71 |
| **GROSS MARGIN** | 4,878,929.72 | 3,785,094.61 |
| R&D expenses | 3,271,022.14 | 3,559,628.22 |
| Sales and marketing expenses | 2,343,652.01 | 4,016,222.78 |
| Administrative expenses | 1,713,609.66 | 2,192,949.58 |
| Other operating income | 240,565.58 | 293,638.22 |
| Other operating expenses | 4,500,000.00 | 0.00 |
| **OPERATING LOSS** | **-6,708,788.51** | **-5,690,067.75** |
| Financial income and expenses | | |
| Interest and financial income from Group companies | 141,236.13 | 192,494.41 |
| Other interest and financial income | 1,356,460.11 | 1,153,671.56 |
| Interest and other financial expenses | 137,365.33 | 928,095.27 |
| Financial income and expenses, total | 1,360,330.91 | 418,070.70 |
| **LOSS BEFORE EXTRAORDINARY ITEMS** | **-5,348,457.60** | **-5,271,997.05** |
| **LOSS BEFORE APPROPRIATIONS AND TAXES** | **-5,348,457.60** | **-5,271,997.05** |
| **LOSS FOR THE FINANCIAL PERIOD** | **-5,348,457.60** | **-5,271,997.05** |

# Parent company balance sheet

| Balance sheet | Dec. 31, 2005 | Dec. 31, 2004 |
|---|---|---|
| **ASSETS** | | |
| **NON-CURRENT ASSETS** | | |
| **Intangible assets** | | |
| Intangible rights | 483,341.45 | 772,343.35 |
| Development expenses | 143,019.62 | 181,296.19 |
| Intangible assets, total | 626,361.07 | 953,639.54 |
| **Tangible assets** | | |
| Machinery & equipment | 42,539.62 | 65,177.37 |
| Tangible assets, total | 42,539.62 | 65,177.37 |
| **Investments** | | |
| Shares in Group companies | 200,344.24 | 200,344.24 |
| Investments, total | 200,344.24 | 200,344.24 |
| **NON-CURRENT ASSETS, TOTAL** | **869,244.93** | **1,219,161.15** |
| **CURRENT ASSETS** | | |
| **Inventory** | 1,364.91 | 5,823.91 |
| **Receivables** | | |
| **Current receivables** | | |
| Accounts receivable | 193,198.76 | 166,548.79 |
| Receivables from the Group companies | 2,492,324.88 | 4,274,765.18 |
| Other receivables | 53,871.43 | 775,858.34 |
| Prepaid expenses and accrued income | 403,006.47 | 356,024.95 |
| Current receivables, total | 3,142,401.54 | 5,573,197.26 |
| **Long-term receivables** | | |
| Receivables from Group companies | 4,570,696.43 | 4,559,580.90 |
| Total long-term receivables | 4,570,696.43 | 4,559,580.90 |
| **Financial investments** | | |
| Other securities | 21,087,070.60 | 32,336,443.88 |
| **Cash in hand and at bank** | 842,034.60 | 895,338.36 |
| **CURRENT ASSETS, TOTAL** | **29,643,568.08** | **43,370,384.31** |
| **ASSETS, TOTAL** | **30,512,813.01** | **44,589,545.46** |

| Balance sheet | Dec. 31, 2005 | Dec. 31, 2004 |
|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | 848,064.39 | 843,046.26 |
| Share premium fund | 26,091,132.01 | 26,066,673.25 |
| Retained profit/loss | 8,065,922.36 | 21,487,849.73 |
| Fair value reserve | 93,974.25 | 74,221.54 |
| Net loss for the period | -5,348,457.60 | -5,271,997.05 |
| Subordinated loans | 0.00 | 245,218.00 |
| **SHAREHOLDERS' EQUITY, TOTAL** | **29,750,635.41** | **43,445,011.73** |
| **STATUTORY PROVISIONS** | | |
| Provisions | 0 | 95,450.69 |
| **STATUTORY PROVISIONS, TOTAL** | **0** | **95,450.69** |
| **LIABILITIES** | | |
| **Deferred tax liabilities** | 33,017.99 | 26,077.90 |
| **Current liabilities** | | |
| Advances received | 25,287.94 | 40,231.54 |
| Accounts payable | 134,497.05 | 103,390.09 |
| Other liabilities | 102,844.95 | 149,927.95 |
| Accrued expenses and deferred income | 466,529.67 | 729,455.56 |
| Current liabilities, total | **729,159.61** | **1,023,005.14** |
| **LIABILITIES TOTAL** | **762,177.60** | **1,049,083.04** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL** | **30,512,813.01** | **44,589,545.46** |

# Parent company cash flow statement

| Cash flow statement | Jan. 1–Dec. 31, 2005 | Jan. 1–Dec. 31, 2004 |
|---|---|---|
| **Cash flow from operations** | | |
| Sales revenue | 3 078 648,24 | 3 815 665,96 |
| Revenue from other operations | 265 703,00 | 666 417,02 |
| Payments from operating ex-penses | -6 761 132,04 | -8 189 367,00 |
| Cash flow from operations before Financial items and taxes | -3 416 780,80 | -3 707 284,02 |
| Interest paid and other financial expenses paid | -166 993,85 | -586 617,70 |
| Operating interest and other financial income received | 120 477,68 | 451 813,65 |
| **Cash flow from operations** | **-3 463 296,97** | **-3 842 088,07** |
| **Cash flow from investments** | | |
| Investments in tangible and in-tangible assets | -111 796,96 | -166 934,37 |
| Loans granted | -980 776,62 | -876 913,58 |
| Received Payments of long-term loans | 969 661,09 | 1 647 825,84 |
| Investments in other financial assets | 11 000 010,23 | -1 488 212,08 |
| **Cash flow from investments** | **10 877 097,74** | **-884 234,19** |
| **Cash flow from financing** | | |
| Issue premium | 29 476,89 | 93 904,34 |
| Loans granted | -245 218,00 | 0,00 |
| Received Payments of long-term loans | -8 149 930,32 | 0,00 |
| **Cash flow from financing** | **-8 365 671,43** | **93 904,34** |
| **Change in liquid assets/increase(+), decrease(-)** | **-951 870,66** | **-4 632 417,92** |
| **Liquid assets at beginning of period** | **1 793 905,26** | **6 426 323,18** |
| Change in liquid assets/ increase(+), decrease(-) | -951 870,66 | -4 632 417,92 |
| **Liquid assets at end of period** | **842 034,60** | **1 793 905,26** |

Deviating from the financial statement 2004 only cash and short-term investments held to maturity are included in liquid assets. The company adjusted the comparative data for 2004 in the same way.

# Parent company notes to the financial statements

**NOTES TO THE INCOME STATEMENT**

| **Net sales by market area** | **2005** | **2004** |
|---|---|---|
| Finland | 423,122 | 1,022,624 |
| Rest of Europe | 627,631 | 686,078 |
| North America | 3,440,358 | 2,279,922 |
| Other | 576,519 | 366,132 |
| Total | 5,067,630 | 4,354,756 |

| **Personnel expenses** | | |
|---|---|---|
| Wages and salaries | 3,487,752 | 4,503,685 |
| Pension costs | 564,658 | 694,181 |
| Social security expenses | 178,089 | 214,900 |
| Total | 4,230,500 | 5,412,766 |

| | | |
|---|---|---|
| Personnel on average | 59 | 83 |

The parent company had a staff of 52 at the end of the financial year.

| **Personnel distribution by business area at period-end** | | |
|---|---|---|
| R&D | 32 | 40 |
| Sales and marketing | 10 | 23 |
| Administration | 10 | 15 |
| Total | 52 | 78 |

| **Salaries and other remuneration to management** | | |
|---|---|---|
| Arto Vainio | 147,137 | 177,514 |
| Tomi Laamanen | 16,800 | 14,800 |
| Tapio Kallioja | 16,800 | 14,800 |
| Timo Ritakallio | 16,800 | 14,800 |

| **Depreciation and write-downs** | | |
|---|---|---|
| On software | 311,622 | 378,890 |
| On capitalized development expenses | 93,115 | 79,771 |
| On machinery and equipment | 57,541 | 111,232 |
| Total | 462,279 | 569,892 |

**Other operating income**

Other operating income includes EUR 240,000 received as product development funding from the National Technology Agency (TEKES). Corresponding funding for year 2004 was EUR 292,797.

**Other operating expenses**

Other operating expenses EUR 4,500,000 consist of a write-down of the fully owned subsidiary SSH Communications Inc's receivables.

| **Financial income and expenses** | **2005** | **2004** |
|---|---|---|
| Interest and financial income from Group companies | 141,236 | 192,494 |
| Interest income | 25,898 | 50,834 |
| Capital gains on available-for-sale assets | 622,511 | 671,503 |
| Capital gains on derivative contracts | 20,987 | 169,379 |
| Capital losses on derivative contracts | -102,913 | -129,803 |
| Net exchange rate differences | 663,891 | -536,337 |
| Interests on loans | -11,280 | 0 |
| Total | 1,360,331 | 418,071 |

**NOTES TO THE BALANCE SHEET**

| **Non-current assets and other long-term investments** | **2005** | **2004** |
|---|---|---|
| Projects in progress | | |
| Acquisition cost Jan. 1 | 0 | 76,000 |
| Reduction | 0 | -76,000 |
| Acquisition cost Dec. 31 | 0 | 0 |
| | | |
| Software | | |
| Acquisition cost Jan. 1 | 1,805,308 | 1,464,918 |
| Increase | 22,620 | 340,390 |
| Acquisition cost Dec. 31 | 1,827,928 | 1,805,308 |
| | | |
| Accumulated depreciation Jan. 1 | 1,032,965 | 654,075 |
| Depreciation for the period | 311,622 | 378,890 |
| Accumulated depreciation Dec. 31 | 1,344,587 | 1,032,965 |
| Book value | 483,341 | 772,343 |
| | | |
| Development expenses | | |
| Acquisition cost Jan. 1 | 261,067 | 0 |
| Increase | 54,839 | 261,067 |
| Acquisition cost Dec. 31 | 315,905 | 261,067 |
| | | |
| Accumulated depreciation Jan. 1 | 79,771 | 0 |
| Depreciation for the period | 93,115 | 79,771 |
| Accumulated depreciation Dec. 31 | 172,886 | 79,771 |
| Book value | 143,020 | 181,296 |

| Non-current assets and other long-term investments | 2005 | 2004 |
|---|---|---|
| Machinery & equipment | | |
| Acquisition cost Jan. 1 | 802,579 | 790,874 |
| Increase | 34,904 | 11,705 |
| Reduction | -17,414 | 0 |
| Acquisition cost Dec. 31 | 820,070 | 802,579 |
| | | |
| Accumulated depreciation Jan. 1 | 737,402 | 626,170 |
| Depreciation for the period | 57,542 | 111,232 |
| Accumulated depreciation on decrease | -17,414 | 0 |
| Accumulated depreciation Dec. 31 | 777,530 | 737,402 |
| Book value | 42,540 | 65,177 |
| | | |
| Balance sheet value of machinery and equipment | 42,540 | 65,177 |

| **Parent company receivables from Group companies** | | |
|---|---|---|
| Accounts receivable | 2,492,325 | 4,274,765 |
| Loan receivables | 4,570,696 | 4,559,581 |
| Total | 7,063,021 | 8,834,346 |

| **Prepaid expenses and accrued income** | | |
|---|---|---|
| Grants | 240,000 | 265,703 |
| Interest receivables | 8,353 | 24,841 |
| Accrued liabilities and deferred income | 154,654 | 65,481 |
| Total | 403,006 | 356,025 |

| **Other receivables** | | |
|---|---|---|
| Derivative contracts | 0 | 31,891 |
| Advances paid | 44,265 | 27,522 |
| VAT receivables | 9,586 | 117,469 |
| Other current receivables | 20 | 598,976 |
| Total | 53,871 | 775,858 |

Other current receivables for 2004 include EUR 587,328 entered in the escrow account due to the OEM business divestment

| **Investments**<br>**Available-for-sale assets** | **2005** | **2004** |
|---|---|---|
| Fair value Jan. 1 | 31,437,877 | 29,177,862 |
| Net increase/decrease | -10,477,799 | 2,171,493 |
| Change in fair value | 126,992 | 88,522 |
| Fair value Dec. 31 | 21,087,071 | 31,437,877 |
| Short-term | 21,087,071 | 31,437,877 |

Available-for-sale assets mainly comprise of fund units. In 2005, the Group recognized capital gains and losses of EUR 0.6 million on available-for-sale assets in financial income and expenses.

| **Held-to-maturity investments** | **2005** | **2004** |
|---|---|---|
| Commercial papers | 0 | 898,567 |

| Shareholders' equity and liabilities | 2005 | 2004 |
|---|---|---|
| Share capital Jan. 1 | 843,046 | 832,074 |
| Share issues | 5,018 | 10,972 |
| Share capital Dec. 31 | 848,064 | 843,046 |
| Share premium fund Jan. 1 | 26,066,673 | 40,983,741 |
| Share premium on share issue | 24,459 | 82,932 |
| Transfer to unrestricted equity | 0 | -15,000,000 |
| Share premium fund Dec. 31 | 26,091,132 | 26,066,673 |
| Retained earnings Jan. 1 | 16,215,853 | 6,487,850 |
| Paid dividends | -8,149,930 | 0 |
| Transfer to retained profit/loss | 0 | 15,000,000 |
| Retained earnings/loss Dec. 31 | 8,065,923 | 21,487,850 |
| Fair value reserve | 93,974 | 74,222 |
| Net profit/loss for the period | -5,348,458 | -5,271,997 |
| Subordinated loan | 0 | 245,218 |
| Shareholders' equity total | 29,750,636 | 43,445,012 |

The subordinated loan, as defined in 1§, Chapter 5 of the Companies Act, issued by the State Treasure/ National Technology Agency and held by the parent company, has been fully paid off. The company has entered the interest accumulated on the loan as an annual expense.

| Earnings distributable to shareholders | 2005 | 2004 |
|---|---|---|
| Total | 2,671,865 | 16,147,696 |

| **Provisions** | **2005** | **2004** |
|---|---|---|
| Other provisions | | |
| At beginning of period | 95,451 | 0 |
| Increase in provisions | 0 | 95,451 |
| Reversed provisions | 95,451 | 0 |
| At end of period | 0 | 95,451 |
| Total | 0 | 95,451 |

The parent company recorded a provision for 2004 regarding royalties repayable to F-Secure Corporation. This provision has been reversed.

| **Accrued liabilities and deferred income** | **2005** | **2004** |
|---|---|---|
| Personnel related | 466,530 | 698,803 |
| Interest on subordinated loan | 0 | 30,652 |
| Total | 466,530 | 729,455 |

| **Other liabilities** | | |
|---|---|---|
| Personnel related | 90,249 | 149,638 |
| Derivative financial instruments | 2,097 | 0 |
| Other short-term liabilities | 10,499 | 290 |
| Total | 102,845 | 149,928 |

| **Derivative contracts** | | | |
|---|---|---|---|
| Forward Exchange Contracts | | | |
| Fair value | | 0 | 25,740 |
| Face value | | 0 | 759,705 |
| Currency options | | | |
| Fair value | Sold | 25,064 | -11,187 |
| | Bought | -28,006 | 18,080 |
| Face value | Sold | 4,021,178 | 1,492,537 |
| | Bought | 2,018,619 | 746,269 |

# Shares and shareholders

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. The ISIN code used in the clearing and settlement of international securities is FI0009008270.

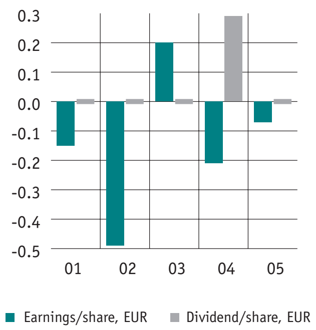
SSH Communications Security Corp's share capital is a minimum of EUR 600,000 and a maximum of EUR 2,400,000, within which limits it can be increased or reduced without altering the Corporate Bylaws. SSH has one class of shares. Each share entitles its holder to one vote at the shareholders' meeting.

The company's registered share capital on December 31, 2005 came to EUR 848,064.39, consisting of 28,268,813 shares at a nominal per-share value of EUR 0.03. 126,750 new SSH shares were subscribed to under the I/1999 stock-option plan, 39,521 shares under the I/2003 stock-option plan and 1,000 shares under the II/2003 stock-option plan, respectively. Based on these subscriptions, the company's share capital increased by EUR 5,018.13 (five share capital increases). The number of the year-end unexercised stock options totaled 1,566,698. As a result of the remaining subscriptions, the share capital may increase by a maximum of EUR 47,000.94.

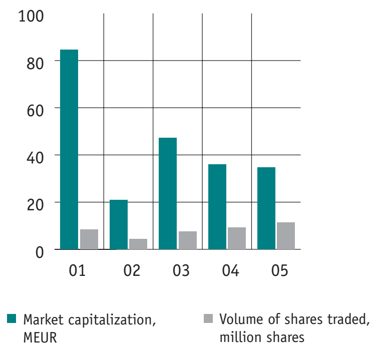
## Share performance and trading volume

The reported trading volume of SSH Communications Security Corp shares for the financial year totaled 11,446,877 shares (valued at EUR 14,006,051.89), i.e. 40.5 percent of the shares changed hands. The highest quotation for the year was EUR 1.78 (the highest quotation in year 2004 was EUR 2.69) and the lowest EUR 0.91 (the lowest quotation in year 2004 was EUR 1.18). The average share price for the year was EUR 1.23, and the company's share close at EUR 1.23 on the final trading day of the year (December 30, 2005), i.e. down 4.1 percent compared to the share price on December 30, 2004. At the end of the financial period the market value of the shares was EUR 34,770,639.99.

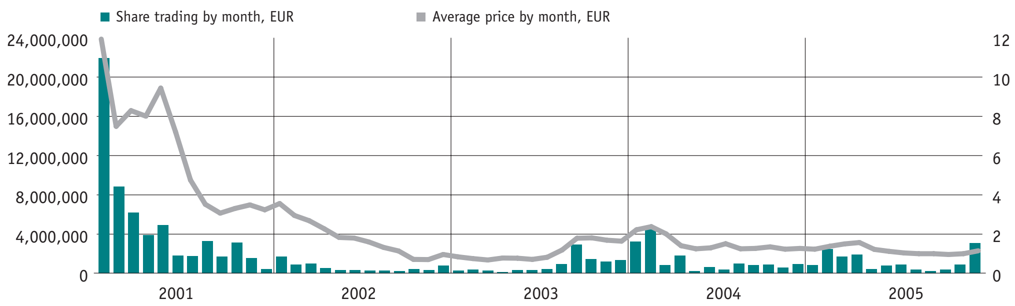
Earnings and dividend per share




Market capitalization and volume of shares traded




Share trading and average price



## Board authorizations

The SSH Annual General Meeting of April 26, 2005 authorized the Board of Directors to decide by April 26, 2006, to increase the share capital through a rights issue and/or convertible bonds, in such a way that the resultant share capital may increase by a maximum of EUR 165,000. By December 31, 2005 the Board had not exercised this authorization. During the fiscal year 2005, the Board of Directors had no authorization to acquire treasury shares.

## Stock option rights

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.

Based on the stock option plan (I/1999) approved by the shareholders' meeting on August 5, 1999, a total of 36,250 stock options remain unexercised, entitling their holders to subscribe for new shares for EUR 0.03. These subscriptions may increase share capital by a maximum of EUR 1,087.50.

| Warrant | 2005 (no.) | 2004 (no.) | Subscription period starts | Ends |
|---|---|---|---|---|
| I/1999C | 375 | 4,625 | 5.1.2001 | 5.1.2011 |
| I/1999D | 375 | 4,625 | 11.1.2001 | 11.1.2011 |
| I/1999E | 12,749 | 26,249 | 5.1.2002 | 5.1.2012 |
| I/1999F | 8,374 | 24,374 | 11.1.2002 | 11.1.2012 |
| I/1999G | 7,753 | 84,003 | 5.1.2003 | 5.1.2013 |
| I/1999H | 6,624 | 19,124 | 11.1.2003 | 11.1.2013 |

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 6.21. These subscriptions may increase share capital by a maximum of EUR 5,070.75

| Warrant | 2005 (no.) | 2004 (no.) | Subscription period starts | Ends |
|---|---|---|---|---|
| I/2000A | 56,525 | 56,525 | 5.1.2001 | 5.1.2011 |
| I/2000B | 70,190 | 70,190 | 11.1.2001 | 11.1.2011 |
| I/2000C | 42,310 | 42,310 | 5.1.2002 | 5.1.2012 |

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 6.21. These subscriptions may increase share capital by a maximum of EUR 960.00. Subscription period is November 1, 2000 – November 1, 2010.

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 14.71. These subscriptions may increase share capital by a maximum of EUR 277.50.

| Warrant | 2005 (no.) | 2004 (no.) | Subscription period starts | Ends |
|---|---|---|---|---|
| II/2000A | 3,250 | 3,250 | 11.1.2001 | 11.1.2011 |
| II/2000B | 1,625 | 1,625 | 5.1.2002 | 5.1.2012 |
| II/2000C | 875 | 875 | 11.1.2002 | 11.1.2012 |
| II/2000D | 875 | 875 | 5.1.2003 | 5.1.2013 |
| II/2000E | 875 | 875 | 11.1.2003 | 11.1.2013 |
| II/2000F | 875 | 875 | 5.1.2004 | 5.1.2014 |
| II/2000G | 875 | 875 | 11.1.2004 | 11.1.2014 |

The share subscription period has expired for warrants based on the stock option plan (I/2001) approved by the AGM on April 19, 2001.

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 3.21. These subscriptions may increase share capital by a maximum of EUR 20,371.56.

| Warrant | 2005 (no.) | 2004 (no.) | Subscription period starts | Ends |
|---|---|---|---|---|
| I/2002A | 254,477 | 254,477 | 5.1.2003 | 5.1.2008 |
| I/2002B | 203,013 | 203,013 | 5.1.2004 | 5.1.2008 |
| I/2002C | 140,813 | 140,813 | 5.1.2005 | 5.1.2008 |
| I/2002D | 80,749 | 80,749 | 5.1.2006 | 5.1.2008 |

Based on the stock option plan (II/2002) approved by the AGM on April 11, 2002, a total of 15,125 stock options remain unexercised, entitling their holders to subscribe for new shares for EUR 1.71. These subscriptions may increase share capital by a maximum of EUR 453.75.

| Warrant | 2005 (no.) | 2004 (no.) | Subscription period starts | Ends |
|---|---|---|---|---|
| II/2002A | 4,000 | 5,250 | 6.6.2002 | 4.11.2012 |
| II/2002B | 2,875 | 4,125 | 5.6.2003 | 4.11.2012 |
| II/2002C | 4,125 | 4,125 | 5.6.2004 | 4.11.2012 |
| II/2002D | 4,125 | 4,125 | 5.6.2005 | 4.11.2012 |

Based on the Board's decision on June 26, 2002 to issue stock options under the stock option plan (III/2002), a total of 41,999 stock options remain unexercised, entitling their holders to subscribe for new shares for EUR 1.61. These subscriptions may increase share capital by a maximum of EUR 1,259.97.

| Warrant | 2005 (no.) | 2004 (no.) | Subscription period starts | Ends |
|---|---|---|---|---|
| III/2002A | 10,249 | 10,749 | 5.6.2003 | 6.26.2012 |
| III/2002B | 10,250 | 10,750 | 5.6.2004 | 6.26.2012 |
| III/2002C | 10,750 | 10,750 | 5.6.2005 | 6.26.2012 |
| III/2002D | 10,750 | 10,750 | 5.6.2006 | 6.26.2012 |

Based on the AGM's decision on April 29, 2003 to issue stock options under the stock option plan (I/2003), a total of 554,497 remain unexercised, entitling their holders to subscribe for new shares for EUR 0.58. These subscriptions may increase share capital by a maximum of EUR 16,634.91.

| Warrant | 2005 (no.) | 2004 (no.) | Subscription period starts | Ends |
|---|---|---|---|---|
| I/2003A | 153,341 | 177,018 | 5.1.2004 | 5.1.2009 |
| I/2003B | 192,156 | 208,000 | 5.1.2005 | 5.1.2009 |
| I/2003C | 209,000 | 209,000 | 5.1.2006 | 5.1.2009 |

Based on the AGM's decision on April 29, 2003 to issue stock options under the stock option plan (II/2003), a total of 29,500 remain unexercised, entitling their holders to subscribe for new shares for EUR 0.58. These subscriptions may increase share capital by a maximum of EUR 885.00.

| Warrant | 2005 (no.) | 2004 (no.) | Subscription period starts | Ends |
|---|---|---|---|---|
| II/2003A | 7,499 | 7,998 | 5.1.2004 | 4.29.2013 |
| II/2003B | 7,001 | 8,002 | 5.1.2005 | 4.29.2013 |
| II/2003C | 7,499 | 7,998 | 5.1.2006 | 4.29.2013 |
| II/2003D | 7,501 | 8,002 | 5.1.2007 | 4.29.2013 |

Shares subscribed by virtue of stock options are entitled to dividend from the fiscal year during which they have been subscribed. Other shareholder rights will commence when the share capital increase has been entered into the Trade Register.

The combined stock options for 1998–2003 held by SSH's Board, CEO and Executive Management Team accounted for 27.3 percent of all outstanding stock options on December 31, 2005.

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

## Shareholders

All SSH shares totaling 28,268,813 have been entered in the book-entry securities systems maintained by Central Securities Depository Ltd. At the end of 2005, SSH had a total of 6,228 shareholders. Of all the company's shares, a total of 27,776,183 were based on direct shareholding (accounting for 98.26% of shares and voting rights) and 492,630 (accounting for 1.74% of shares and voting rights) were nominee-registered shares. SSH's ten largest shareholder's holdings accounted for approximately 71.12% of the company's shares and voting rights. Foreign shareholding represented 0.81%, of which 0.80% was based on direct holdings and 0.02% on nominee-registered shares. SSH holds no treasury shares.

| Shareholding by sector<br>Type of sector | Number of shares | Percentage of shares and votes, % |
|---|---|---|
| Non-banking corporate sector | 3,308,170 | 11.7 |
| Financial institutions and insurance companies | 810,850 | 2.9 |
| Public-sector organizations | 483,450 | 1.7 |
| Non-profit organizations | 61,150 | 0.2 |
| Households | 23,375,863 | 82.7 |
| Foreign shareholders | 229,330 | 0.8 |
| **Total** | 28,268,813 | 100.0 |

**Largest shareholders by number of shares**

| Shares | Number of owners | Percentage of ownership, % | Number of shares | Percentage of share capital, % |
|---|---|---|---|---|
| 1–50 | 2,512 | 40.3 | 123,568 | 0.4 |
| 51–100 | 470 | 7.6 | 46,634 | 0.2 |
| 101–500 | 1,351 | 21.7 | 414,118 | 1.5 |
| 501–1,000 | 673 | 10.8 | 576,423 | 2.0 |
| 1,001–5,000 | 943 | 15.1 | 2,302,720 | 8.2 |
| 5,001–10,000 | 146 | 2.3 | 1,124,667 | 4.0 |
| 10,001–50,000 | 110 | 1.8 | 2,177,395 | 7.7 |
| 50,001–100,000 | 9 | 0.2 | 611,897 | 2.2 |
| 100,001–500,000 | 11 | 0.2 | 2,850,771 | 10.1 |
| 500,001–1,000,000 | 0 | 0.0 | 0 | 0.0 |
| 1,000,001–5,000,000 | 2 | 0.0 | 3,312,971 | 11.7 |
| 5,000,000–999,999,999 | 1 | 0.0 | 14,727,649 | 52.1 |
| **Total** | **6,228** | **100.0** | **28,268,813** | **100.0** |
| of which nominee-registered | 6 | 0.1 | 492,630 | 1.7 |

At the end of the year, SSH's largest shareholder was Mr. Tatu Ylönen, holding 53.4 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, 2005, the company's freely tradable shares accounted for 46 percent of all shares.

**Ten largest shareholders on December 31, 2005 (excluding those with nominee-registered shares)**

| | | % | Number of shares |
|---|---|---|---|
| 1. | Ylönen Tatu Juhani | 52.1 | 14,727,649 |
| 2. | Kivinen Tero Tapani | 6.8 | 1,912,971 |
| 3. | Assetman Oy | 5.0 | 1,400,000 |
| 4. | Keskinäinen Eläkevakuutusyhtiö Ilmarinen | 1.7 | 483,450 |
| 5. | Promotion Capital I Ky | 1.7 | 480,000 |
| 6. | Tatu Ylönen Oy | 1.3 | 375,071 |
| 7. | Nordea Pankki Suomi Oyj | 0.9 | 250,000 |
| 8. | Kaukonen Kalle Simeoni | 0.6 | 172,150 |
| 9. | Adams George F | 0.6 | 162,300 |
| 10. | Kiiveri Erkki | 0.5 | 141,050 |
| | **Total** | **71.1** | **20,104,641** |
| | Nominee-registered holdings | 1.7 | 492,630 |

Those SSH Board members serving on the Board since April 26, 2005 and the CEO hold 54.0% 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 around 54.7% of the company's shares and voting rights.

# Calculation of financial ratios

Return on equity, % (ROE) = $\dfrac{\text{Profit before extraordinary items and taxes – taxes}}{\text{Shareholders' equity + minority interest (average for the year)}} \times 100$

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

Equity-to-assets ratio, % = $\dfrac{\text{Shareholders' equity + minority interest}}{\text{Total assets – advances received}} \times 100$

Earnings per share (EPS) = $\dfrac{\text{Profit before extraordinary items and taxes – taxes +/– minority interest}}{\text{Adjusted average number of shares during the financial period}}$

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

Dividend pay-out ratio, % = $\dfrac{\text{Dividend per share}}{\text{Earning per share (EPS)}} \times 100$

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

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

## Signatures of the annual report and the financial statement

Helsinki February 7, 2006

| | |
|---|---|
| Tomi Laamanen<br>Chairman of the Board of Directors | Timo Ritakallio |
| Tapio Kallioja | Tatu Ylönen |
| Arto Vainio<br>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, February 21, 2006

PricewaterhouseCoopers Oy
Authorized Public Accountants

Henrik Sormunen
Authorized Public Accountant

# 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 from January 1, 2005 to December 31, 2005. The Board of Directors and the Managing Director have prepared the report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that include the parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements and on the administration of the parent company.

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 is to examine that the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies' Act.

### *Consolidated financial statements*

In our opinion the consolidated financial statements give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

### *Parent company's financial statements and administration*

In our opinion 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 in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of distributable funds is in compliance with the Companies' Act.

Helsinki, February 21, 2006

PricewaterhouseCoopers Oy
Authorised Public Accountants

Henrik Sormunen
Authorised Public Accountant

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