

TECTIA INTERIM REPORT, JANUARY 1 - JUNE 30, 2011

## SUMMARY

## April-June

- Net sales totaled EUR 2.1 million, down by -7.2 % percent year on year (EUR 2.2 million in 4-6/2010).
- Operating loss amounted to EUR -0.2 million (an operating loss of EUR -0.1 million in 4-6/2010). Loss EUR -0.3 million (profit EUR 0.1 million)
- Earnings per share EUR -0.01 (EUR 0.00).

## January-June

- Net sales totaled EUR 4.2 million, down by -7.9 % percent year on year (EUR 4.5 million in 1-6/2010).
- Operating loss amounted to EUR -1.1 million (an operating loss of EUR -0.1 million in 1-6/2010) including EUR -0.4 of non-recurring costs (EUR 0.0 million). Loss EUR -1.2 million (profit EUR 0.1 million)
- Earnings per share EUR -0.04 (EUR 0.00).

The company's financial position remained healthy, with equity ratio 60.5 % (66.4%) and liquid assets at the end of the period EUR 3.3 million (EUR 5.0 million).

KEY FIGURES	4-6/ 2011	4-6/ 2010	1-6/ 2011	1-6/ 2010	Change %	1-12/ 2010
Net sales (MEUR)	2.1	2.2	4.2	4.5	-7.9	9.1
Operating profit/loss (MEUR)	-0.2	-0.1	-1.1	-0.1	-340.0	-0.7
% of net sales	-11.9	-2.5	-26.2	-2.1		-7.9
Profit/loss before taxes (MEUR)	-0.3	0.1	-1.2	0.1	-474.0	-0.5
Profit/loss (MEUR)	-0.3	0.1	-1.2	0.1	-481.9	-0.5
Return on equity, %			-86.3	5.0		-12.8
Return on investment, %			-78.9	5.6		-10.5
Liquid assets			3.3	5.0	-31.4	4.0
Gearing (%)			-152.5	-174.5		-121.0
Equity ratio (%)			60.5	66.4		69.1
Earnings per share (EUR)	-0.01	0.00	-0.04	0.00	-1432.2	-0.02
Shareholders' equity per share (EUR)	0.06	0.10	0.06	0.10	-32.3	0.10

## CEO's BUSINESS REVIEW

Tectia Corporation is the market maker in real-time information security for modern, networked organizations. Tectia's key strategic objectives are to turn into sales and marketing oriented, channel sales based software house and become the fastest track for our customers to securing, automating, managing and sharing data-in-transit in cross platform environments.

In the second quarter 2011 net sales amounted to EUR 2.1 million with decrease of - 7.9 percent compared to the previous year. Operating loss was EUR -0.2 million. The

company's financial position remained healthy with an equity ratio of 60.5 percent and EUR 3.3 million in liquid assets.

The second quarter was the first full channel sales based period for the company, and the ramp-up of global channel sales network is in full speed. Tectia signed several technology and marketing alliances as well as channel partnerships with global and regional vendors for its Mobile Authentication and Managed Security businesses.

Mobile Authentication Business Unit joined two technology alliance programs, Juniper and F5, in the second quarter.

Juniper Networks Global Technology Alliance Program is based on the certification as a Juniper networks Technology Alliance Partner with demonstrated interoperability between the company's Tectia MobileID two-factor, tokenless authentication solution and the market-leading Juniper Networks SA Series SSL VPN Appliance.

With F5 Networks' Global Technology Alliance Program (TAP) Tectia gains access to F5 technology solutions and resources to maximize the value of joint deployments of the companies' products. F5 Networks is the global leader in Application Delivery Networking.

Both programs are in the ramp-up phase with the alliance distributors and resellers to start the sales of Tectia Mobile ID globally.

Managed Security Business Unit announced that its enterprise security software solutions have been certified by Oracle to work with Oracle Linux. As a global Oracle partner, Tectia is able to deliver security software solutions powered with Oracle's leading infrastructure software and applications, including Oracle Linux.

In the Nordics, the company announced the appointment of Cygate to sell Tectia enterprise security solutions in Finland. Cygate is a provider of IT infrastructure and security solutions and managed security services operating in the Nordics.

The company has started new product development with customer pilots to strengthen and extend its Managed Security Business offering.

The company continues to evaluate its patent portfolio and strategic alternatives to create shareholder value from it.

Jari Mielonen  
CEO

## REPORTING

This interim report follows IFRS accounting standards and assessments. This report is prepared according to IFRS standards and interpretations which are valid 31<sup>st</sup> December 2010. Interim report follows same principles and standards as the previous financial statement release. This interim report is prepared according to IAS 34. The figures are non-audited.

## FUTURE OUTLOOK

For the fiscal year 2011, Tectia estimates its net sales to grow from 2010. Full year 2011 net result is expected to be negative.

Earlier for the fiscal year 2011, Tectia estimated its net sales to grow from 2010 and expected the net result to be positive.

Consolidated net sales for January-June 2011 was EUR 4.2 million (EUR 4.5 million), decrease -7.9 percent year on year. Decrease in net sales is due to company sales progressing transition into channel sales model. Americas market area had EUR -0.6 million less revenue January-June 2011 compared to first half 2010.

Consolidated operating loss January-June 2011 amounted to EUR -1.1 million (EUR -0.1 million). Operating loss January-June 2011 included extra-ordinary items EUR -0.4 million. Executed organizational restructuring is estimated to lower significantly operational expenses during July-December 2011 compared to same period previous year.

Managed Security business sales channel building has advanced well in quality but gross margin is lower in channel sales model. Managed Security business sales volumes are still estimated to grow during second half 2011 compared to January-June 2011. Mobile Authentication business technology alliances ramp up has advanced as planned, and in order to grow sales volumes, the company has decided during second half 2011 to invest more into Mobile Authentication business channel sales.

The company continues to evaluate its patent portfolio and strategic alternatives to create shareholder value from it. The company hasn't received any royalty or other revenue from these patents or patent applications so far, and they have not been booked as assets in the balance sheet. The company has decided to invest in patent portfolio management during second half 2011.

#### NET SALES

Consolidated net sales for April-June totaled EUR 2.1 million (EUR 2.2 million), down by -7.2 %, year on year.

Consolidated net sales for January-June totaled EUR 4.2 million (EUR 4.5 million), down by -7.9 %, year on year.

The Americas, the Europe, Middle East and Africa market area and the Asia Pacific region accounted for 60.6 percent (68.1 percent), 26.1 percent (22.8 percent) and 13.3 percent (9.1 percent) of reported net sales, respectively.

TECTIA NET SALES						
EUR Million	4-6/ 2011	4-6/ 2010	1-6/ 2011	1-6/ 2010	Change %	1-12/ 2010
BY SEGMENT						
AMERICAS	1.1	1.4	2.5	3.1	-18.2	6.0
APAC	0.3	0.2	0.6	0.4	38.8	1.0
EMEA	0.6	0.6	1.1	1.0	4.6	2.1
Tectia Group Total	2.1	2.2	4.2	4.5	-7.9	9.1
BY OPERATION						
License sales	0.7	0.8	1.5	1.8	-19.4	3.7
Maintenance	1.3	1.4	2.7	2.7	0.0	5.4
Total	2.1	2.2	4.2	4.5	-7.9	9.1

The majority of Tectia's invoicing is U.S. dollar based. During the report period, the U.S. dollar's average exchange rate to euro weakened approximately -5.8 percent compared to the same period a year ago. With comparable exchange rates 2010 net sales decrease would have been -3.2 percent compared 2010 corresponding period.

#### CHANGES IN OPERATIONS STRUCTURE

In order to increase speed of strategy execution, Tectia established two separate business units and structured its global sales, presales and customer support accordingly. The business units are Managed Security business and Mobile Authentication business. The establishment of two separate business units has not effect at this moment on segment reporting. Company discloses business unit segment's reports when segment reporting limits are met.

#### RESULTS AND EXPENSES

Operating loss for April-June amounted to EUR -0.2 million (an operating loss of EUR -0.1 million), with net loss totaling EUR -0.3 million (a net profit of EUR 0.1 million).

Operating loss for January-June amounted to EUR -1.1 million (an operating loss of EUR -0.1 million), with loss totaling EUR -1.2 million (a net profit of EUR 0.1 million).

Extra-ordinary items EUR -0.4 million are due to organizational change. Costs were related to personnel reductions both in US and Germany and in addition closing the sales office in Germany.

Sales, marketing and customer support expenses for the April-June reporting period amounted EUR -1.1 million (EUR -1.2 million), while research and development expenses totaled EUR -0.6 million (EUR -0.6 million) and administrative expenses EUR -0.4 million (EUR -0.5 million).

Sales, marketing and customer support expenses for the January-June reporting period amounted EUR -2.8 million (EUR -2.4 million), while research and development expenses totaled EUR -1.3 million (EUR -1.1 million) and administrative expenses EUR -0.9 million (EUR -1.1 million).

#### BALANCE SHEET AND FINANCIAL POSITION

The financial position of Tectia remained at a healthy level during the reporting period. The consolidated balance sheet total on June 30, 2011 stood at EUR 5.9 million (June 30, 2010 EUR 6.9 million; December 31, 2010 EUR 8.3 million), of which liquid assets accounted for EUR 3.3 million (June 30, 2010 EUR 5.0 million; December 31, 2010 EUR 4.0 million), or 56.5 percent of the balance sheet total. On June 30, 2011, gearing, or the ratio of net liabilities to shareholders' equity, was -152.5 percent (June 30, 2010 -174.5; December 31, 2010 -121,0) and the equity ratio stood at 60.5 percent (June 30, 2010 66.4; December 31, 2010 69.1).

The reported gross capital expenditure for the period totalled EUR 0.1 million (EUR -0.0 million). The reported financial income and expenses consisted mainly of interest on deposits and exchange rate gains or losses. Financial income and expenses totalled EUR -0.1 million (EUR 0.2 million).

During January-June, Tectia reported a negative cash flow of EUR -0.6 million (EUR 0.0 million) from business operations, and investments showed a negative cash flow of EUR -0.1 million (EUR -0.0 million). Cash flow from financing totalled EUR 2.5 million (EUR -1.1 million), mainly consisting short-term financial assets transfer to cash and cash equivalent assets. Total cash flow from operations, investments and financing was positive EUR 1.8 million (EUR -1.2 million) during the period.

#### RESEARCH AND DEVELOPMENT

Research and development expenses for April-June totaled EUR -0.6 million (EUR -0.6 million), the equivalent of 28.7 percent of net sales (29.8 percent). During April-June company has capitalized R&D costs EUR 0.2 million.

Research and development expenses for January-June totaled EUR -1.3 million (EUR -1.1 million), the equivalent of 31.3 percent of net sales (24.3 percent). During January-June company has capitalized R&D costs EUR 0.2 million.

Company has continued R&D capitalizations during the reporting period related to Mobile Authentication business according to IAS 38 standard. Company has started R&D capitalizations during the reporting period related to Managed Security business according to IAS 38 standard. In reporting period R&D cost capitalizations amount to EUR 0.2 million.

#### HUMAN RESOURCES AND ORGANIZATION

At the end of June, the Group had 61 employees on its payroll, down by 9 persons from the previous year, a decrease of -13 percent.

At the end of the period, 41 percent of the employees worked in sales and marketing, 44 percent in R&D, and 15 percent in corporate administration.

#### BOARD AND AUDITORS

At the Annual General Meeting (AGM) on March 3, 2011 re-elected Juhani Harvela, Pyry Lautsuo, Juho Lipsanen, Tiia Tuovinen and Tatu Ylönen as directors of the company's Board of Directors. Juho Lipsanen was re-elected as the Chairman of the Board of Directors.

The Authorized Public Accountants KPMG Oy Ab was re-elected as the auditor of the company, with Kirsi Jantunen as the accountant with the main responsibility.

#### SHARES, SHAREHOLDING AND CHANGES IN GROUP STRUCTURE

The reported trading volume of Tectia Corporation shares totaled 989,966 (valued at EUR 698,208.35). The highest quotation was EUR 0.89 and the lowest EUR 0.57 The trade-weighted average share price for the period was EUR 0.71 and the share closed at EUR 0.59 (June 30, 2011).

Company's principal owner Tatu Ylönen holdings directly and through his company, Tatu Ylönen Oy, holds now 45.5 percent of the company's shares, Assetman Oy holds 13.1 percent and SSH Management Investment Corp 4.7 percent. More information about the shareholding can be obtained from the company's web site.

SSH Management Investment Corp is part of the Tectia Group consolidated financial statements due to shareholder agreement.

During reporting period no dividend or return of capital are distributed.

#### SHARE CAPITAL AND BOARD AUTHORIZATIONS

The company's registered share capital on June 30, 2011 was EUR 916,476.24 consisting of 30,549,208 shares. During the reporting period option rights were exercised in I/1999 option program. According to the I/1999 option program, 250 shares were subscribed for using class C option certificates, 250 shares using class D option certificates and 500 shares using class F option certificates. Exercise of options rights increased share capital 30.00 EUR.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the issuing of in total 5,500,000 shares, in one or more tranches, as share issues against payment or by giving stock options or other special rights entitling to shares, as defined in Chapter 10 Section 1 of the Finnish Companies Act, either in accordance with the shareholders' pre-emptive right to share subscription or deviating from this right. The authorization will be valid until the next Annual General Meeting, but will expire on June 30th 2012 at the latest.

The Annual General Meeting approved the Board of Directors' proposal to authorize the Board of Directors to decide upon the acquiring of a maximum of 2,000,000 of the company's own shares, in one or more tranches, with assets belonging to the company's non-restricted equity. This amount corresponds approximately to 6.55 per cent of all

shares of the company. The compensation to be paid for the acquired shares shall be determined on the date of acquisition on the basis of the trading rate determined for the company's share in the public trading arranged by NASDAQ OMX Helsinki Ltd. Furthermore, the Annual General Meeting decided to authorize the Board of Directors to decide upon a distress concerning a maximum of 1,500,000 own shares, in one or more tranches. The amount corresponds approximately to 4.91 per cent of all shares of the company. The authorization to acquire the shares and the authorization concerning the distress shall be valid at most for eighteen (18) months after the decision of the Annual General Meeting.

## RISKS AND UNCERTAINTIES

Risk management is a part of Tectia's internal administration. It aims to ensure that major risks affecting the company's business and operating environment are identified and monitored. Tectia operates in fast changing security software markets, thus the changes in IT-business and particularly in security software business development affects directly to company's business risk. 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.

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

Tectia 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. Tectia actively uses its own products to protect the information system architecture. Encryption and strong authentication protect the company's confidential data communications.

Tectia provides no financing for its customers other than by granting normal payment terms. 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. Significant of the Tectia's invoicing is taking place in US dollars. Company has hedged during the reporting period against US dollar currency fluctuations. Company does not apply hedge accounting on current hedging position and therefore states hedging income/expenses in income statement.

During the reporting period there have not been any significant changes in company's business risks or uncertainties.

## RELATED PARTY TRANSACTIONS

During reporting period there have not been any significant changes in company's business risks or uncertainties. More details to risks and uncertainties are disclosed in 2010 financial statement and annual report.

## EVENTS AFTER THE BALANCE SHEET DATE

Company will establish subsidiaries by end of financial year 2011 to manage its patent portfolio.

## TABLES

COMPREHENSIVE INCOME STATEMENT						
EUR million						
	4-6 /2011	4-6 /2010	1-6/ 2011	1-6/ 2010	1-12/ 2010	
Net sales	2.1	2.2	4.2	4.5	9.1	
Cost of goods sold	-0.2	0.0	-0.2	-0.1	-0.2	
Gross profit	1.9	2.2	4.0	4.5	8.9	
Other operating income	0.0	0.0	0.0	0.0	0.0	
Sales, marketing and customer support costs	-1.1	-1.2	-2.8	-2.4	-5.1	
Product development expenses	-0.6	-0.6	-1.3	-1.1	-2.3	
Administrative expenses	-0.4	-0.5	-0.9	-1.1	-2.2	
Operating profit/loss	-0.2	-0.1	-1.1	-0.1	-0.7	
Financial income and expenses	0.0	0.1	-0.1	0.2	0.3	
Profit/loss before taxes	-0.3	0.1	-1.2	0.1	-0.5	
Taxes	0.0	0.0	0.0	0.0	0.0	
Net profit/loss for the financial period	-0.3	0.1	-1.2	0.1	-0.5	
Minority Interest	-0.0		-0.0		-0.0	
Other profit and loss account items:						
Foreign subsidiary translation differences	-0.1	0.0	-0.3	0.1	-0.2	
Total comprehensive income	-0.3	0.1	-1.5	0.2	-0.7	

Net profit/loss attributable to:						
Owners of the Company	-0.3		-1.2		-0.0	
Non-Controlling interest	-0.0		-0.0		-0.5	
EARNINGS PER SHARE						
Earnings per share (EUR)	-0.01	0.00	-0.04	0.00	-0.02	
Earnings per share, diluted (EUR)	-0.01	0.00	-0.04	0.00	-0.02	

BALANCE SHEET			
EUR million			
	30/06/2011	30/06/2010	31/12/2010
ASSETS			
Non-current assets			
Tangible assets	0.1	0.2	0.2
Intangible assets	1.0	0.1	0.8
Investments	0.0	0.0	0.0
Total non-current assets	1.1	0.3	1.0
Current assets			
Trade and other receivables	1.5	1.6	3.3
Short-term financial assets	0.0	2.2	2.5
Cash and cash equivalents	3.3	2.8	1.5
Total current assets	4.8	6.6	7.2
Total assets	5.9	6.9	8.3





Shareholders' equity June. 30. 2010	0.9	0.1		-1.3	-1.0		4.2	2.8
Change								-0.2
Transactions related to Siltanet Corp Purchase			0.1				0.5	0.6
Net profit						-0.0	-0.6	-0.6
Management Incentive plan		0.0				0.3		0.3
Shareholders' equity Dec. 31. 2010	0.9	0.1	0.1	-1.3	-1.0	0.3	4.0	3.2
Change				-0.1				-0.1
Net Profit						-0.0	-0.8	-0.8
Shareholders' equity June 30. 2011	0.9	0.1	0.1	-1,4	-1.0	0.3	3.2	2.2

NET SALES BY SEGMENT					
EUR million	4-6/ 2011	4-6/ 2010	1-6/ 2011	1-6/ 2010	1-12/ 2010
AMER	1.1	1.4	2.5	3.1	6.0
APAC	0.3	0.2	0.6	0.4	1.0
EMEA	0.6	0.6	1.1	1.0	2.1
Tectia Group total	2.1	2.2	4.2	4.5	9.1

GROSS MARGIN BY SEGMENT					
EUR million	4-6/ 2011	4-6/ 2010	1-6/ 2011	1-6/ 2010	1-12/ 2010
AMER	1.1	1.1	2.5	3.0	6.0
APAC	0.3	0.3	0.6	0.4	1.0
EMEA	0.4	0.4	0.9	1.0	1.9
Tectia Group total	1.8	1.8	4.0	4.4	8.9

OPERATING PROFIT/LOSS BY SEGMENT					
EUR million	4-6/ 2011	4-6/ 2010	1-6/ 2011	1-6/ 2010	1-12/ 2010
AMER	0.6	0.9	1.1	2.0	3.4

APAC	0.2	0.1	0.4	0.2	0.4
EMEA	0.3	0.2	0.4	0.2	0.5
Common Group expenses*	-1.4	-1.2	-3.0	-2.5	-5.1
Tectia Group total	-0.2	-0.1	-1.1	-0.1	-0.7

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

KEY FIGURES AND RATIOS			
EUR million	1-6/2011	1-6/2010	1-12/2010
Net sales	4.2	4.5	9.1
Operating profit/loss	-1.1	-0.1	-0.7
Operating profit/loss. as % of net sales	-26.2	-2.1	-7.9
Profit/loss before extraordinary items and taxes	-0.8	0.1	-0.7
Profit/loss before extraordinary items and taxes. as % of net sales	-19.3	2.0	-7.9
Profit/loss before taxes	-1.2	0.1	-0.5
Profit/loss before taxes. as % of net sales	-27.7	2.0	-5.0
Return on equity (%)	-86.3	5.0	-12.8
Return on investment (%)	-78.9	5.6	-10.5
Interest-bearing net liabilities	-3.3	-4.8	-4.0
Equity ratio (%)	60.5	66.4	69.1
Gearing (%)	-152.5	-174.5	-121.0
Gross capital expenditure	0.1	0.0	0.1
% of net sales	2.0	0.0	1.2
R&D expenses	1.3	1.1	2.3
% of net sales	31.3	24.3	25.2
Personnel. period average	64	67	68
Personnel. period end	61	70	70

Calculation for key figures and ratios are presented in 2010 financial statement and annual report. There have not been changes in calculation rules after that.

PER-SHARE DATA			
EUR	1-6/2011	1-6/2010	1-12/2010
Earnings per share. Undiluted	-0.04	0.00	-0.02
Earnings per share. diluted	-0.04	0.00	-0.02
Equity per share	0.06	0.10	0.10
No. of shares at period average (thousand)	30 548	29 901	29 900
No. of shares at period end (thousand)	30 548	29 901	29 901*
Share performance			
Average price	0.71	0.90	0.91
Low	0.57	0.76	0.76
High	0.89	1.15	1.15
Share price. period end	0.59	0.92	0.83
Market capitalization. period end (EUR million)	18.0	27.5	24.8
Volume of shares traded (million)	1.0	3.0	4.5
Volume of shares traded. As	3.2	10.2	15.1

% of total			
Value of shares traded (EUR million)	0.7	2.7	4.1
Price per earnings ratio (P/E)	-	-	-
Dividend per share	0.0	0.0	0.0
Dividend per earnings, %	0.0	0.0	0.0
Effective return on dividend, %	0.0	0.0	0.0

\* Figure does not include directed share issue to Siltanet Corp as the shares became under exercise not until January 2011.

CONTINGENT LIABILITIES			
EUR million	30.6.2011	30.6.2010	31.12.2010
Rent security deposits	0.1	0.1	0.1
Leasing commitments outside the balance sheet			
Maturing within 1 year	0.4	0.4	0.5
Maturing between 1 and 5 years	1.2	0.9	1.3

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Tectia Corporation will release its next interim report for January 1-September 30, 2011 in October 19th.

Helsinki, July 20th 2011

TECTIA CORPORATION

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