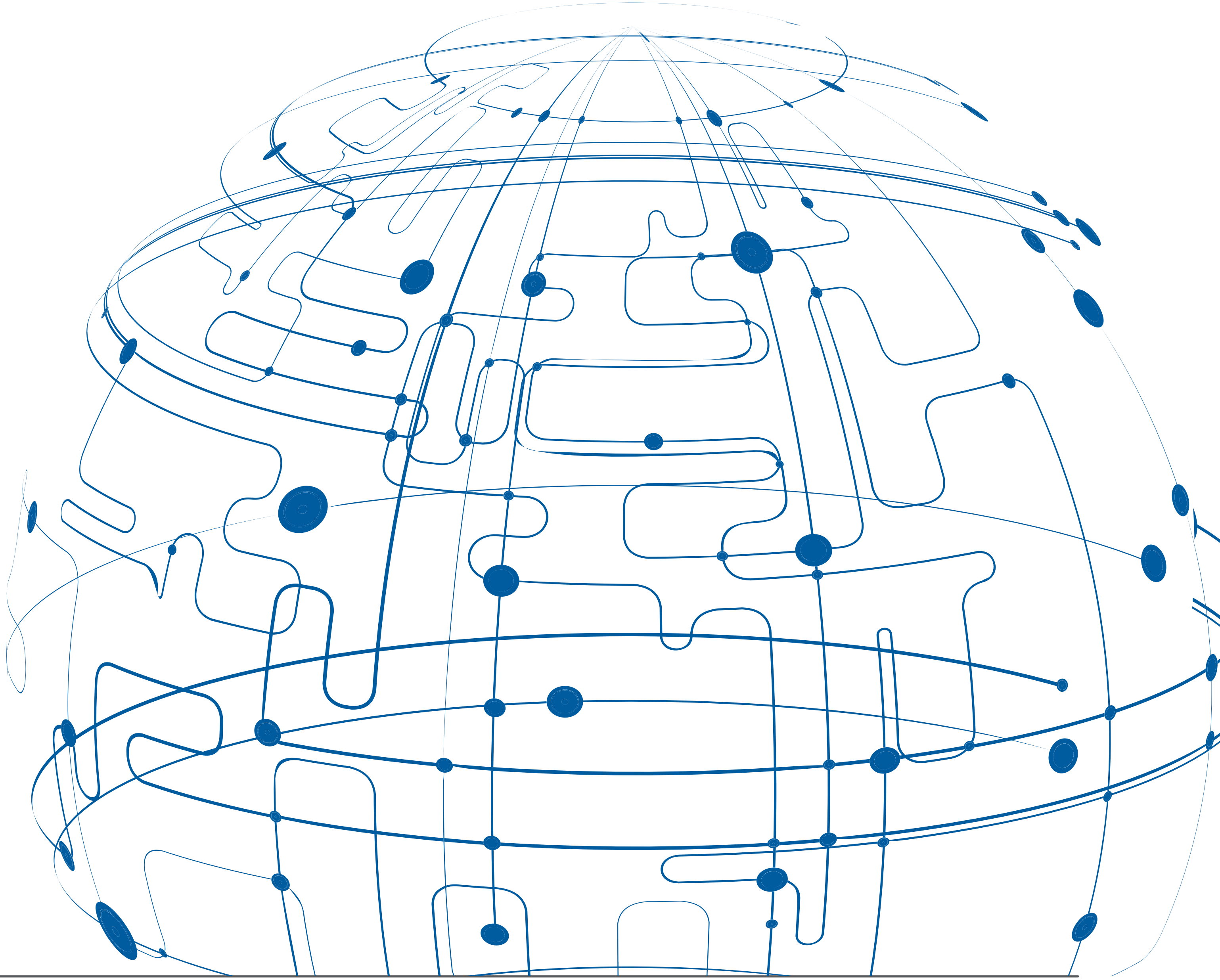
ANNUAL REPORT 2011 TECTIA

Securing
the path
to your
information
assets

ssh

Contents



CEO'S BUSINESS REVIEW

Tectia as a company is changing. We have re-embraced the SSH Communication Security name and ssh.com internet address in our business. This is the name by which our customers recognize us in the world. SSH technology is one of the most widespread encryption technologies in the world, both in commercial and free form, and we originally developed it.

I see the company more and more as a growth-oriented entrepreneur-driven company. I am building the company on its current strengths: our existing customers, the SSH brand and our strong technology.

We are also developing new concepts around the SSH protocol and technology and more broadly around managing large scale IT environments more efficiently and more securely.

The company is extending its SSH key management capabilities, including user key management. SSH's key management solutions have been on the market since 2003 and are used by some of the largest banks, retail chains and logistics companies in the world – even for managing environments of tens of thousands of servers. The company is developing the next generation key management and configuration solution together with its largest customers (including some of the largest banks in the world, a large retail chain, and a large logistics company). The management solutions enhance customer's operational efficiency, reduce operational risks and ease regulatory compliance. SSH's management solutions support both commercial Tectia products as well as open source OpenSSH versions – also in mixed environments and on all hardware platforms.

The company is also renewing its solutions for auditing of administrative and remote access, strengthening its position in user authentication using mobile phones, and providing solutions for secure automated file transfers – also as part of partners' products. For IBM mainframes the company offers the leading commercial SSH solution, whereby large corporations can secure data transfers all the way to their core databases, and partners can extend their offerings to this environment.

The company will continue to change in the coming quarters. The sales organization is evolving to better reach and serve the security needs of the most demanding enterprise customers. Active but focused marketing will raise company awareness within our key customer groups and strengthen the credibility of the company as a supplier. World leading technology enables the company to respond to customer needs that the competition cannot yet fully address. Internally we are rationalizing administration and operational IT infrastructure.

The new year brings major opportunities but also challenges. We are ready to face those challenges, and I'm confident that the current strategic direction can carry the company forward for years to come.

Tatu Ylönen
CEO

PERSONNEL

INTERNATIONAL WORKING ENVIRONMENT

By the end of 2011, Tectia had 52 employees, 35 of them at the head office in Helsinki, Finland; 3 at Hong Kong office and 14 in offices in the US. Our employees represent 12 nationalities. At the end of the period, 46 per cent of the employees worked in R&D, 39 per cent in sales, marketing and customer support, and 15 per cent in administration.

DEVELOPMENT OPPORTUNITIES AND WELLBEING

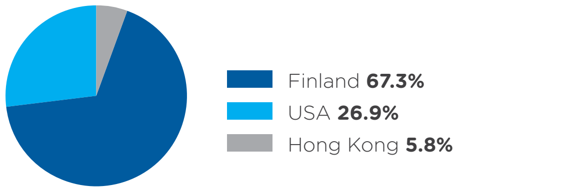
One of the most important success factors of Tectia, and one of the true core competencies of the company, is the capability to innovate and to develop effective technical solutions to the customers' data communications security problems. Developing such innovative solutions requires higher education, and 90 percent of Tectia employees hold a tertiary degree. Original solutions to customers' real life critical problems are of utmost importance to Tectia. The company endeavors to increase and maintain its innovation capability by investing in employee wellbeing and continuous personal development. Twice a year, all employees have development discussions with their immediate supervisors. In these discussions, personal objectives and development plans are composed for every employee. Tectia uses job rotation, internal training and external courses, as well as enhancements to the job descriptions as a means of maintaining and developing employee competencies.

Tectia wellbeing activities are organized in collaboration with our occupational health care services and the pension insurance company, who carries out annual employee surveys. The goal of the wellbeing activities is to increase fitness and good health among staff members by promoting physical activities in daily life. We want to increase our employees' wellbeing at work and help lower their stress levels.

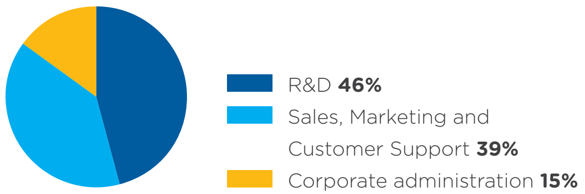
VERY SATISFIED EMPLOYEES

In December 2011, we carried out our annual personnel satisfaction survey. The purpose of the survey was to map the level of occupational wellbeing among employees. The target was to discover our strengths as an organization, and to identify the development needs for improving job satisfaction on the personal and company levels. Feedback to this web-based questionnaire indicated a high overall level of job satisfaction. The most positive aspects of working at Tectia included the management and supervisory personnel, physical wellbeing and meaningful work. Areas that could benefit from further development included internal communication and information exchange, further enhancing the working culture to better support adjusting to change. Following analysis of the survey development areas and related actions were defined for 2012.

Employee distribution by geographical area



Employee distribution by business area



SALES AND MARKETS

REVIEW OF 2011 SALES

Overall in 2011, new customer acquisitions and new sales growth performed below expectations in EMEA and the Americas while APAC saw a 31.5% increase in new business. Across all regions, maintenance revenue continued to perform well with an existing customer retention rate of 87%.

In late September 2011, the company changed its management team and put in place a new strategic plan focusing on the company's core data-in-transit product line, in house research and development, the complete reengineering of the company's sales & marketing programs and the return of the well respected and well known SSH Communications Security brand. In addition to the new management team, the company made key strategic hires bringing in top talent with a proven track record in the high technology space.

By the end of Q4 the company had taken significant steps in turning around its sales and marketing efforts including the return to the SSH Communications Security brand, the launch a the new SSH.com website, a dedicated sales development program focused on developing qualified opportunities for sales, a revamped PR program, a dedicated mainframe product manager, a leading edge marketing 2.0 platform, and a refocus of sales and marketing activities on the core SSH product line.

Despite facing many challenges in 2011, Tectia Corporation closed the year with an impressive book of business including more than 3,000 customers across the globe and over half of the Fortune 10. The company's ability to solve vertically specific customer challenges in finance, retail, government, transportation, education, energy, and healthcare industries and reputation as the gold-standard in data-in-transit security has helped mitigate strategic missteps affecting the company's sales and marketing efforts in the past. Because of the strength of the company's core product offering and exceptionally large footprint for a company of its size, Tectia Corporation ended the year in a relatively good position moving forward.

SALES DEVELOPMENT OF REGIONS

North American sales fell significantly in 2011 with the migration from a direct to indirect sales model. The acquisition of new revenue generating partners to offset the sales productivity of a direct sales force was not achieved quickly enough to balance the drop in new revenue. In late 2011 the company transitioned to a mixed direct & channel model. This change in strategy improved the company's ability to focus on enterprise customers and prospects.

The US government space faced increased downward pressure in 2011 due to the debt crisis and late passage of the fiscal budget. This lead to the cancellation of several pre-approved and previously funded projects.

Despite the challenges faced in North America, Tectia's APAC region continued to expand with healthy double digit growth fueled by rollouts of our core SSH server technology to two significant regional financial institutions. In addition to this, the acquisition of two new accounts in the energy and retail sector in APAC provided a promising path for ongoing growth. Further to this, APAC celebrated its first z/OS sale of the region with a Malaysian financial institution.

EMEA sales remained stagnant in 2011 with the majority of business being driven through repeat purchases of existing customers. Renewal of existing support agreements remained steady.

REVIEW OF CHANNEL STRATEGY

In North America with the addition of SDS, a mainframe dedicated partner, we have linked our z/OS product to their monitoring and automation platform providing customers with a complete solution to not only secure their file transfers on the mainframe, however have full automation and auditing capabilities of those transfers. In addition to SDS, mainframe partners from UK, Spain and France have also joined the Tectia family.

In EMEA, partners such as Inovasec GmbH of Germany and Handd Ltd of UK were successful in the adaption of their roles as Tectia competence centers. Both partners established strong and immediate contact with the Tectia customer based and identified and closed new business opportunities while simultaneously providing a better overview, control, and customer intimacy of Tectia's businesses in those countries.

In APAC, a 100% indirect sales approach continued and the acquisition of new partners such as Cyberworld in Hong Kong and Dataterminator in Singapore provided an additional level of visibility to end customers on Tectia solutions in those markets. Established and long time partners such as DIT of Japan and Quantiq of Singapore performed strongly in 2011.

OUTLOOK FOR 2012

With the return to in house product development and a primary focus of providing solutions which mitigate risk, ensure compliance and drive out cost through improved process management of existing SSH and OpenSSH environments, the outlook for 2012 looks more promising. With a clear demand from our customers for solutions around auditing, access control, and management of SSH and OpenSSH, there seem to be clear derivatives of the SSH core technology where we are uniquely positioned to offer our customers more value than potential competitors.

In 2012, Tectia Corporation will return to operating under the SSH Communications Security name and brand. This change has been undertaken to recapture the visibility and recognition of the company known the world over as the inventors of the SSH protocol. Customers have clearly identified with the SSH brand and recognize us for our ability to provide enterprise class solutions in this space.

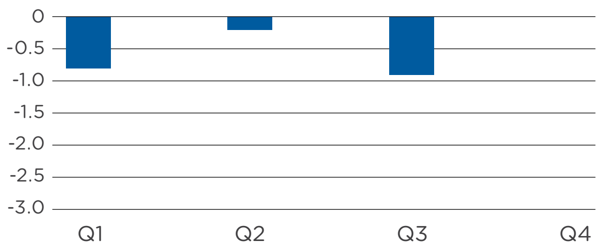
The sales model for Tectia Corporation will adjust itself to meet more appropriately for the market space where it operates. In APAC and EMEA, the company will continue to work primarily through an indirect sales model whereas in America it will operate as a mixed direct and channel model on the commercial side and will continue to work through a dedicated channel for the US government space.

In December of 2011 the company began work on two key new products, both of which have been well received by initial launch candidates and with a planned launch by the Fall of 2012. Our first product will be announced at the 2012 RSA Conference, a leading security conference with broad exposure to media, customers and industry analysts, and will be initially targeted at enterprise level customer with whom the company already has an existing relationship.

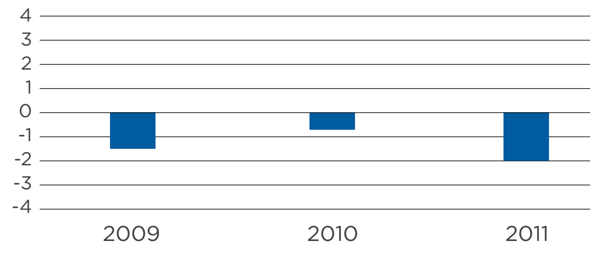
The company's large footprint and extremely loyal existing customer base will allow us to accelerate the sales process. Because we are developing these products alongside our customers, we are mapping our research & development to vertically specific customer use cases that we have identified as being widespread problems in targeted industries. In addition, we will be expanding upon our OpenSSH management solutions, which will improve our potential market size beyond just Tectia SSH implementations.

Our much more targeted focus aimed at serving unmet customers needs and addressing core security challenges should enhance our visibility and position Tectia Corporation as the company that helps enterprises secure the path to their information assets more effectively than the competition. Our strategic direction is in line with current and emerging needs in the network security space and we are well positioned with our current base to have sales success.

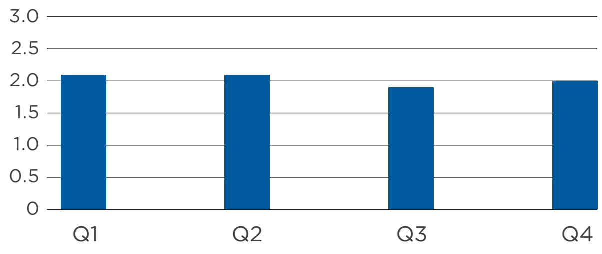
SSH Tectia quarterly operating profit 2011 EUR million



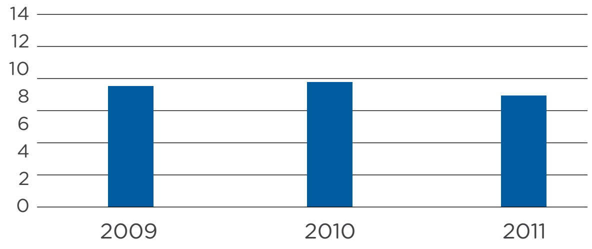
Operating profit EUR million



SSH Tectia quarterly net sales performance 2011 EUR million



Net sales performance EUR million



TECHNOLOGY

RE-FOCUSED PRODUCT STRATEGY

Tectia's technology and product strategy was revised in autumn 2011 to focus the product offering on SSH core technology and areas surrounding and complementing it. SSH and the related secure file transfer protocol, SFTP, are amongst the most widely used network security protocols in the world and are, in one form or another, a critical part of all large companies' IT security and data transfer infrastructures, applications and processes. As the world known original inventor of the SSH protocol, the re-focused product strategy makes Tectia a natural choice for large enterprises to solve their security challenges related to remote system administration and data transfers.

To complement the core SSH functionality, Tectia solution offering continues to provide products to transparently secure legacy file transfers and business applications, automate the data exchange processes, audit and control privileged users' activities, and enforce strong yet minimal intrusive authentication methods.

As SSH and SFTP are standardized protocols, there are several commercial and open source solutions available. Large enterprises rarely have homogeneous SSH environments but more typically a mixture of two or more solutions. Therefore it is important to ensure that all solution components work according to the standard and add value to the existing customer environment. As an example, the new Tectia SSH Manager version 6.2, released in summer 2011, adds centralized management and auditing functionalities for OpenSSH environments.

BRINGING IN OPERATIONAL EFFICIENCY

The annual maintenance renewals of existing customers accounted for over half of the total annual revenue with over 87% renewal rate. In addition to the world class regional technical support teams, one of the key criteria for ensuring customer satisfaction and high maintenance renewal rates are prompt responses and high quality deliveries to customer issues and feature enhancement requests.

In June 2011, Tectia launched a new customer support site that improves the visibility between the end customers and Tectia R&D. The new escalation processes ensure that the key customer requirements are handled with right priority throughout the organization.

During 2011, SSH core development team gathered a comprehensive list of requirements from our key customers and started to implement a product version most of our key customers will be able to upgrade to. This version, scheduled for release during Q2/2012, will be released as Long Term Supported version with five years support length. This will improve our customers' ability to fit Tectia SSH as part of their platform upgrade and support schedules, and minimizing the additional upgrades. The benefit for Tectia will be to be able to focus our maintenance efforts on a single version and use more resources on new product development.

NEW PRODUCT DEVELOPMENT

Tectia has an impressive customer base with over 3000 customers in total, and 40% of Fortune 500 companies in the world, most of them facing and trying to solve the enterprise security challenges of today and tomorrow: How to ensure regulatory and security standard compliance? How to audit users' and systems' activities and prevent data losses? How to gain visibility to IT infrastructure, and identify and mitigate the risks? How to improve the efficiency and security without adding complexity or costs?

Predicting the future is always hard but the best way to identify the areas for new product development is to go and meet these customers, listen, challenge and learn. Which of their challenges fit into our core expertise? How we can help them to drive down cost, improve operational efficiency, identify and mitigate risks and help to reach compliance?

During the second half of 2011, Tectia setup two new product development teams and started development projects based on our key customers' feedback and requirements. The products will be developed in close co-operation with selected pilot customers to ensure the products will meet the requirements and user cases of large enterprises and organizations.

2012 OUTLOOK

2012 will be an exiting year for Tectia with releases of two new in house developed products, scheduled for release in Q2 and Q3 2012. Patent applications for both products have been filed and first alpha code versions have already been deployed to key customers test environments. The new product offering will strengthen our focus and position as the leading provider of management and auditing solutions for SSH remote system access and file transfer environments.

CORPORATE GOVERNANCE

The Tectia Group comprises Tectia Corporation (Tectia) and its subsidiaries. Tectia Corporation is registered in Helsinki, Finland and is a publicly listed company at NASDAQ OMX Helsinki Ltd. Its subsidiaries are Tectia, Inc. (USA) that operates in Americas and Tectia Operations Ltd that operates in the UK and Germany, Tectia Limited (HK) that operates in Asia Pacific and in 2011 established Tectia Solutions Ltd. (FIN) and Tectia Licensing Sarl. (LUX) for the purpose of managing Tectia's IPR assets.

Tectia abides by its Articles of Association as well as 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 NASDAQ OMX Helsinki Ltd, and Finnish Corporate Governance Code of publicly listed companies.

SHAREHOLDERS' MEETING

The ultimate decision-making power at Tectia 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. The shareholder's meeting 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 Articles of Association, adopt the financial statements, approve the amount of dividend, and to select the company's auditors. Each Tectia share conveys one vote at the shareholder's meeting.

BOARD OF DIRECTORS

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

Tectia'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 Articles of Association, in accordance with its agenda, Tectia's Board of Directors:

- appoints and dismisses the CEO and decides on his/her service terms
- approves nominations of the Group Management Team members
- approves bonus and incentive schemes for the CEO and personnel
- approves the company's long term strategy and annual budget and follows their implementation
- reviews and approves interim reports and annual report
- confirms the company's risk management and reporting procedures
- decides on acquisitions and other significant investments
- decides on other matters that belong to the Board of Directors' power according to the Finnish Companies Act or other legislation.

BOARD OF DIRECTORS – MEMBERS

The Annual General Meeting held on 3 March 2011 elected Juho Lipsanen (Chairman), Juhani Harvela, Pyry Lautsuo, Tiia Tuovinen and Tatu Ylönen as members of the Board of Directors.

Juhani Harvela, Tatu Ylönen, Pyry Lautsuo, Tiia Tuovinen and Juho Lipsanen

JUHANI HARVELA

born 1964, M.Sc. (Software Engineering & Business)
Board member since 2010,
Co-Founder & General Partner, Veturi Venture Accelerator Oy

Jussi (Juhani) Harvela has over 20 years of global high technology business experience in multiple executive management positions. Prior to co-founding Veturi, he was President & CEO and a board member of Solid Information Technology (sold to IBM) in Cupertino, CA. USA. He currently holds several board memberships and senior advisor roles in international growth companies and national technology commercialization programs. Does not own any Tectia shares.

PYRY LAUTSUO

born 1946, M.Sc. (Technology)
Board member since 2008
IBM Country General Manager in Finland between years 1997–2006

Pyry Lautsuo has 30 years of experience with versatile international tasks in technology industries. In addition, he holds board memberships in several Finnish and international companies, and in business and industries organizations. Owns 12,500 Tectia shares.

JUHO LIPSANEN

born 1961, M.Sc. (Economics)
Board member since 2009,
Chairman of the Board since 2009
Partner of ValCrea AG

Juho Lipsanen is the chairman of the board or a board member in several Nordic companies. He has been the CEO of TeliaSonera Finland in 2005–2008 and the CEO of Alma Media in 2002–2005. In 1988–2002 he held various positions at ABB Ltd, among them the CFO of ABB automation and the CEO of ABB New Ventures. Owns 21,865 Tectia shares.

TIIA TUOVINEN

born 1964, Master of Laws, LLM
Board member since 2010
General Counsel at TeliaSonera Ab – Broadband Services

Tiia Tuovinen holds several board memberships in companies in Baltic and Nordic countries, and in business and industrial organizations. Does not own any Tectia shares.

TATU YLÖNEN

born 1968, LicSc (Tech)
Board member since 1995
Major shareholder, CEO since September 26, 2011

Tatu Ylönen developed the Secure Shell technology for remote access and founded Tectia Corporation (formerly named as SSH Communications Security Corp). He is an internationally respected network security expert. Tatu Ylönen owns 13,919,048 Tectia shares.

The majority of the Board members have no dependence on the company. Juho Lipsanen, Juhani Harvela, Pyry Lautsuo and Tiia Tuovinen are deemed to be independent Board members. Tatu Ylönen owns 45.56 per cent of the total number of Tectia shares and is therefore classified as not independent Board member of the company.

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 is focused on outlining strategic policies and updating the corporate strategy. In the autumn, the focus is on tactical matters, and in November the budget for the following year is approved. In the beginning of the year, meetings 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 by 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 CFO or General Counsel acts as secretary to the Board meetings.

The Board of Directors convened 20 times in 2011. The average attendance rate of Board members was 94 percent. The Board evaluates its operations and processes to increase efficiency and quality. An 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. The Board of Directors will then make its final decisions based on the recommendations of the committees. Tectia's Board of Directors has appointed two committees an Audit Committee and a Nomination and Remuneration Committee.

Tiia Tuovinen acts as the Chairman and Pyry Lautsuo acts as a member of the Audit Committee. As the CEO, the CFO and the company's auditor participate in the committee meetings, the Board has deemed two Board members 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 as follows:

- 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 seven times in 2011 and the average attendance rate of the committee members was 100 percent.

The Nomination and Remuneration Committee plans compensation and reward schemes for the management and employees. Tatu Ylönen acts as the chairman and Juhani Harvela and Juho Lipsanen act as members of the committee.

The Nomination and Remuneration Committee convened 2 times in 2011, and the average attendance rate of the committee members was 100 percent.

CEO AND GROUP MANAGEMENT TEAM

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

The Group Management Team supports the CEO in managing and developing Tectia Group, and the members of the Group Management Team report to the CEO. The Group Management Team meets regularly and the meetings are chaired by the CEO. All issues addressed in the meetings and the related decisions are recorded in the meeting minutes.

TATU YLÖNEN

born 1968, LicSc (Tech)
President and Chief Executive Officer

Tatu Ylönen the founder and the major shareholder of Tectia returned as President and CEO on September 26th, 2011, bringing his exceptional experience as a network security innovator to Tectia's product line. While working as a researcher at Helsinki University of Technology, Tatu Ylönen began working on a solution to combat a password-sniffing that targeted the university's networks. What resulted was the development of the Secure Shell (SSH), a security technology that would quickly replace vulnerable rlogin, TELNET and rsh protocols as the gold-standard for data-in-transit security. Tatu Ylönen is charting on exciting new course for the future of the space that he invented. Owns 13,919,048 Tectia shares.

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 three months. The total remuneration of Managing Director at the date is EUR 0 per month (i.e., no remuneration). There is no separate severance payment agreed. The Managing Director is entitled to annual bonus scheme which will be decided by the Board of Directors every year during the first quarter or latest one month after Annual General Meeting. For reaching FY2012 performance criteria decided separately by the Board of Directors, maximum bonus is EUR 300,000.

Jari Mielonen, M.Sc. (Economics) born 1960, served as the President and CEO of Tectia from November 17, 2009 until September 26, 2011. Owns Tectia shares indirectly through SSH Management Investment Oy which holds 1,433,750 Tectia shares jointly between the members of the Group Management Team.

MIKKO KARVINEN

born 1976, M.Sc. (Economics)
Chief Financial Officer (CFO) and Deputy Managing Director

Mikko Karvinen is responsible for Tectia's global Financial Management and Human Resources. Prior to joining Tectia, Mikko Karvinen was CFO at Automaster Oy. Previously, he held several financial management positions at Vaisala Oyj both in Finland and the USA during 2001–2007. Owns Tectia shares indirectly through SSH Management Investment Oy which holds 1,433,750 Tectia shares jointly between the members of the Group Management Team.

PEKKA RAUHALA

born 1960, LL M, MBA
President and General Counsel

Pekka Rauhala is responsible for Tectia's operations in Americas and is the President of Tectia, Inc. In addition Pekka Rauhala serves as General Counsel of Tectia Group being responsible Tectia's General Counsel Office's activities; Corporate Governance and Business Support including worldwide responsibility to oversee contracts, IPR s and licensing activities. He also serves as the President of Tectia Operations Oy (the subsidiary operating in Germany and in the UK). Prior to joining Tectia, Pekka Rauhala served Tellabs Inc., Jaakko Pöyry Group and Helsinki Chamber of Commerce in several key in-house counsel positions during 1988–2000. Owns directly 20,000 Tectia shares and 7,500 stock options and additionally, owns Tectia shares indirectly through SSH Management Investment Oy which holds 1,433,750 Tectia shares jointly between the members of the Group Management Team.

MATTHEW MCKENNA

Born 1973, BA, MBA
Vice President and Head of Sales and Marketing

Matthew McKenna is responsible for Tectia's sales and marketing globally. Prior to joining Tectia, Matthew McKenna served as a member of executive management team of ADP Dealer Services Nordic and Automaster Oy where he was responsible for international channel operations and manufacturer relations. In addition, he was responsible for key accounts including Mercedes Benz, General Motors, and Scania CV. Does not own any Tectia shares.

KALLE JÄÄSKELAINEN

Born 1977, BA (Science)
Vice President and Head of Research and Development

Kalle Jääskelainen is responsible for Tectia's Research and Development and Customer Services globally. Kalle Jääskelainen has previously held several key management position in Tectia's product management and has over ten years of experience in the information security and communications network industry. Does not own any Tectia shares.

TERO HARJULA

Tero Harjula, BBA (International Business), born 1963, served as the Executive Vice President, Value Driven Security and R&D and a member of the Group Management Team until September 26th, 2011. Owns Tectia shares indirectly through SSH Management Investment Oy which holds 1,433,750 Tectia shares jointly between the members of the Group Management Team.

JOUNI LEINONEN

Jouni Leinonen, D.Sc. (Economics) born 1965, served as Executive Vice President, Chief Operating Officer for Customer and Market Operations and a member of the Group Management Team until September 26th, 2011. Owns Tectia shares indirectly through SSH Management Investment Oy which holds 1,433,750 Tectia shares jointly between the members of the Group Management Team.

REMUNERATION AND INCENTIVE PLANS

The shareholders' meeting confirms annually in advance the emoluments payable to the 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 the members of the Group Management Team.

Forms of remuneration for the Group Management Team and the former CEO involve a performance-related bonus and a share based incentive plan established on 20 October 2010. For the implementation of the share-based incentive plan, the former CEO and the Group Management Team have established a limited liability company SSH Management Investment Oy. The incentive plan includes an agreement on SSH Management Investment Oy's shareholdings and on a loan agreement for financing the purchase of Tectia shares by SSH Management Investment Oy. The incentive plan will be valid until fall 2013, at which time the plan is intended to be dissolved in a manner to be determined later. Earlier, stock option plans have been issued to the key employees (see more information about stock option plans below in section "Stock Option Rights"). The company has no differing pension arrangements for the CEO or other senior management.

The bonus scheme for the CEO and the Group Management Team is based on the company's net sales and EBIT, and on personally defined qualitative and quantitative targets. The targets for the company's senior management are fixed for one year at a time.

The Board of Directors decided on 20 October 2009 on a share issue against payment directed to SSH Management Investment Oy on the basis of authorization granted by the Annual General Meeting of the Shareholders on 4 March 2008 in derogation from the shareholders' pre-emptive subscription rights. A total of 1,100,000 new Tectia shares was offered for subscription by SSH Management Investment Oy in the share issue. The subscription price of the Tectia share was 0.72 EUR . SSH Management Investment Oy purchased further 333,750 Tectia shares from the stock markets during December 2009.

Remunerations to the Board of Directors:
Juho Lipsanen EUR 4,000/month
Juhani Harvela EUR 2,000/month
Pyry Lautsuo EUR 2,000/month
Tiia Tuovinen EUR 2,000/month
Tatu Ylönen (no salary or remuneration)
Remunerations to the Audit Committee:
Tiia Tuovinen EUR 500/meeting
Pyry Lautsuo EUR 300/meeting

Remunerations to the Nomination and Remuneration Committee:
Tatu Ylönen (no salary or remuneration)
Juho Lipsanen EUR 300/meeting
Juhani Harvela EUR 300/meeting

CEO

The CEO's salary and other benefits in 2011 were EUR 162,990 (until Sept 26th, 2011) and additionally an EUR 250,000 severance payment was agreed.

The number of shares and stock options held by the members of the Board of Directors, CEO and members of the Group Management Team are included in their personal profiles.

INSIDERS

Tectia has established its own insider guidelines that comply with the Guidelines of Insiders approved for public companies by the NASDAQ OMX Helsinki Ltd. 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 Euroclear Finland Ltd. The public insider register and the principles regulating trading by insiders are available at the company's website and at the company's headquarters.

The public permanent insiders of the company are the members of the Board, the CEO, the members of the Group Management Team, and the auditors. The number of public permanent insiders is currently 10.

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 the Group Management Team, the sales management, the product management, the financial administration, and the management of information services. In addition, any external legal consultants used by Tectia belong to the company-specific insider register.

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 or financial statement bulletin (closed window).

The said permanent insiders are allowed to trade in securities issued by the company without a prior approval of the company's General Counsel 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 NASDAQ OMX Helsinki Ltd. Company's CFO is responsible for guidance and supervision of the insider matters.

INTERNAL ADMINISTRATION

The aim of internal administration and risk management is to ensure efficient, appropriate operations, dependable financial information and compliance with regulations and internal processes. Tectia'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 Tectia's Board of Directors. The Board also approves Tectia'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.

RISK MANAGEMENT

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. 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.

Tectia's main market area is the United States. To reduce this market dependency risk, the company is actively seeking to expand operations in Europe and Asia. Sales operations are supported by the company's own General Counsel Office, 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 and operations can continue, even in the event of an external catastrophe. Tectia actively uses its own products to protect the information system architecture. Encryption and strong authentication protect the company's confidential data communications from both internal and external threats.

Financial risk management is described separately in the Financial Statements section of the annual report. Tectia 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.

INTERNAL AUDITING

Because of the relatively small size of the company, Tectia 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 situation 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's Articles of Associations, Tectia 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. In 2011, Tectia's auditor was KPMG Oy Ab with Kirsi Jantunen APA as the principal auditor.

In 2011, the auditor's fees were EUR 18,000 in the Group and EUR 18,000 in the parent company. Other fees charged by the firm of auditors were EUR 38,596 in the Group and EUR 17,880 in the parent company. Other fees were mostly related to tax advice.

PUBLIC COMMUNICATIONS

Tectia 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 the latest company information are available at the Tectia website.

INFORMATION FOR SHAREHOLDERS

ANNUAL GENERAL MEETING

Tectia Corporation's Annual General Meeting (AGM) will be held at Töysänkatu 1, Helsinki, Finland, on Wednesday 28 March 2012 at 10:00 am.

Shareholders registered by Friday 16 March 2012 in the shareholders' register maintained by Euroclear Finland Ltd, and who by 4:00 pm Finnish time on Friday 23 March 2012 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 by
a) e-mail to info@ssh.com,
b) fax to +358 20 500 7001 or
c) mail to Tectia Corporation, AGM, Kumpulantie 3, FI-00520 Helsinki, Finland

Any proxy, entitling the holder to exercise a shareholder's voting right at the AGM must be submitted to Tectia by 4:00 pm on Friday 23 March 2012.

FINANCIAL REPORTING IN 2012

Tectia Corporation will publish the following financial reports during 2012:

- Financial Statements Bulletin for 2011 15 Feb 2012
- Annual Report 2011 Week 12
- Interim Report 1 January to 31 March 2012 3 May 2012
- Interim Report 1 January to 30 June 2012 1 Aug 2012
- Interim Report 1 January to 30 September 2012 24 Oct 2012

All financial reports are published in Finnish and English as stock exchange releases and on the Tectia website at www.ssh.com.

The Annual Report is available in English on the Tectia website, and can be downloaded as PDF files.

COMPANY INFORMATION

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

10 LARGEST SHAREHOLDERS 31.12.2011 EXCLUDING NOMINEE-REGISTERED OWNERS

	%	Shares
Ylönen Tatu	45.56	13,919,048
Assetman Oy	13.09	4,000,000
SSH Management Investment Oy	4.69	1,433,750
Kivinen Tero	3.95	1,205,640
Tilitoimisto Capital Oy	3.27	1,000,000
Siltanet Oy	1.83	558,659
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	1.58	483,450
Ohlsbom Janne	0.68	208,782
Oy Autocarrera Ab	0.65	200,000
Poutanen Jukka	0.49	150,000
Total	**75.80**	**23,159,329**
Nominee-Registered Owners	1.42	432,679

SHARES AND SHAREHOLDERS

SHARE CAPITAL

Tectia has one class of shares, and each share entitles its holder to one vote at the shareholders' meeting. The nominal share value is EUR 0.03. The company's registered and fully paid share capital was EUR 916,476.24 consisting of 30,549,208 shares, on 31 December 2011.

SHARE TRADING AND REGISTRATION

The Tectia shares (TEC1V) are quoted at NASDAQ OMX Helsinki Ltd. The shares have been entered in the book-entry securities system that is maintained by Euroclear Finland Ltd. The official list of Tectia shareholders is also kept by Euroclear Finland Ltd.

BOARD AUTHORIZATIONS

The Tectia Annual General Meeting on 3 March 2011 authorized the Board of Directors to decide until the next Annual General Meeting, however, no later than 30 June 2012, on issuing a maximum number of 5,500,000 shares in one or more new share issues, and on issuing special rights to share subscription defined in the Finnish Companies Act Chapter 10, section 1, with or without subscription rights to shareholders.

The Board has exercised this authorization on 14 December 2010 while deciding to pay part of Siltanet Corporation Mobile ID business transaction with directed share issue.

SHAREHOLDING BY SECTOR

Type of sector	Number of Shares	Percentage of shares and voting rights, %
Non-banking corporate sector	7,615,567	24.93
Financial, insurance companies and institutions	490,203	1.61
Public sector organizations	483,450	1.58
Non-profit organizations	81,550	0.27
Households	21,817,264	71.42
Foreign shareholders	61,474	0.20
Total	**30,549,208**	**100.00**

CHANGES IN SHARE CAPITAL

	Number of shares	Share capital	Total
31.12.2010	**30,548,208**	**916,446**	**916,446**
Subscriptions under stock option plan I/1999	1,000	30	
31.12.2011	**30,549,208**	**916,476**	**916,476**

SHAREHOLDING BY NUMBER OF SHARES

Shares	Number of owners	Percentage of owners, %	Number of shares	Percentage of shares, %
1–100	1,978	43.89	113,043	0.37
101–500	977	21.68	302,507	0.99
501–1,000	526	11.67	454,004	1.48
1,001–5,000	773	17.15	1,930,371	6.32
5,001–10,000	133	2.95	1,029,222	3.37
10,001–50,000	95	2.11	2,080,413	6.81
50,001–100,000	10	0.22	649,516	2.13
100,001–500,000	9	0.20	1,874,285	6.14
500,001–999,999,999	6	0.13	22,115,847	72.39
Total	**4,507**	**100.00**	**30,549,208**	**100.00**
of which nomineeregistered	6		432,679	1.42

SHAREHOLDERS

At the end of 2011, Tectia had a total of 4,507 shareholders. 432,679 shares (accounting for 1.42% of shares) were nominee registered. The holdings by the ten largest shareholders accounted for approximately 75.80% of the company's shares and voting rights. Foreign shareholding represented 0.20%, of the company's shares and voting rights. Tectia holds no treasury shares. Tectia's largest shareholder is Mr. Tatu Ylönen, holding 45.6% of the company. On 31 December 2011, the company's freely tradable shares accounted for 94.7% of all shares.

SHARES OWNED BY TECTIA MANAGEMENT

The members of the Tectia Board of Directors and the company CEO owned directly or indirectly through their own companies 45.7% of the Tectia company shares and voting rights on 31 December 2011. More information on the Tectia Management's shareholding is available in Section Financial Statements, under 31 Group companies and related party transactions.

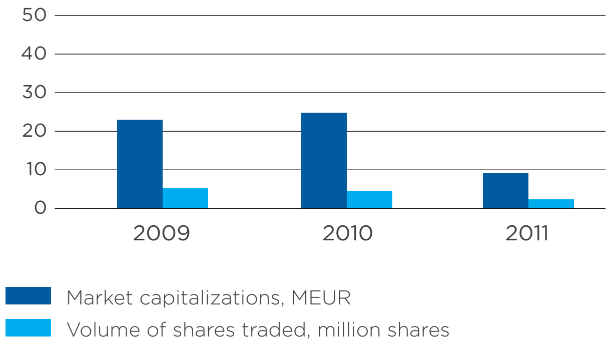
STOCK OPTION RIGHTS

The Tectia Annual General Meetings of 1998, 1999, 2000, 2001, 2002 and 2003 decided to issue stock options and the Board used its authorization on granting options in December 2008. The stock options are part of the Tectia Group's employee retention and incentive plan. The stock option plan (I/1999) series E, F, G, and H are traded in the NASDAQ OMX Helsinki Ltd. More information on the stock option plans is available in Section Financial Statements, under 22 Stock option plans – data.

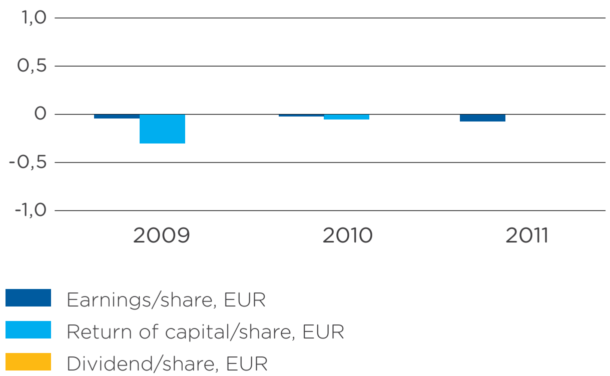
SHARE TRADING AND PERFORMANCE

The Tectia share TEC1V closed at EUR 0.30 (2010: EUR 0.83) on 31 December 2011, and the trade weighted average share price for year 2011 was EUR 0.51 (2010: 0.91). The highest price per share was EUR 0.89 (2010: EUR 1.15) and the lowest price was EUR 0.29 (2010: EUR 0.76). The reported cumulative trading volume of the Tectia shares totaled 2.3 million shares, MEUR 1.2. The market value of the Tectia shares was MEUR 9.2 at the end of the financial period.

Market capitalization and volume of shares traded



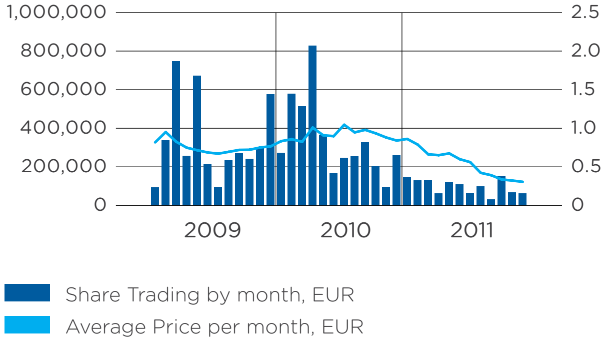
Earnings, dividend and return of capital per share



PER SHARE DATA

	1.1.–31.12.2011 IFRS	1.1.–31.12.2010 IFRS	1.1.–31.12.2009 IFRS
Earnings per share (Group), €	-0.07	-0.02	-0.04
Earnings per share (Group), considering dilution effect, €	-0.07	-0.02	-0.04
Shareholders' equity per share (Group), €	0.03	0.10	0.15
Dividends, €	0	-	0
Dividends per share, €	0.00	0.00	0.00
Dividend pay-out ratio, %	-	-	-
Effective dividend yield, %	0.0	0.0	0.0
Return of capital, €	0.00	1,494,922	8,595,680
Return of capital per share, €	0.00	0.05	0.30
Adjusted average number of shares during the period, thousands	30,549	29,900	28,791
Adjusted average number of shares at the end of period, thousands	30,549	30,548	29,898
Adjusted average number of shares considering dilution effect, thousands	30,563	29,922	29,919
Price per earnings ratio (P/E)	-4.2	-52.1	-18.9
Market capitalization, million €	9.2	24.8	23.0
Share performance in Helsinki Exchanges, €			
Average price	0.51	0.91	0.79
Share price, year-end	0.30	0.83	0.77
Lowest	0.29	0.76	0.65
Highest	0.89	1.15	1.24
Volume of shares traded, millions	2.3	4.5	5.1
Volume of shares traded, % of total number	7.5	15.1	17.0
Volume of shares traded, million €	1.2	4.1	4.0

Market capitalization and volume of shares traded



FINANCIAL STATEMENTS 2011

TECTIA

Securing the path to your information assets

ssh

Contents

Report of the board of directors for 1 Jan–31 Dec 2011

NET SALES

EUR million	10-12/ 2011	7-9/ 2011	4-6/ 2011	1-3/ 2011	1-12/ 2011	10-12/ 2010	1-12/ 2010
GEOGRAPHICAL SEGMENT							
Americas (AMER)	1.1	1.1	1.1	1.4	4.8	1.5	6.0
Asia and the Pacific (APAC)	0.4	0.3	0.3	0.3	1.3	0.4	1.0
Europe and rest of the world (EROW)	0.5	0.5	0.6	0.4	1.9	0.6	2.1
Tectia Group total	2.0	1.9	2.0	2.1	8.1	2.5	9.1
BY OPERATION							
License sales	0.7	0.6	0.7	0.7	2.8	1.2	3.7
Maintenance	1.3	1.3	1.3	1.4	5.3	1.3	5.4
Total	2.0	1.9	2.0	2.1	8.1	2.5	9.1

FUTURE OUTLOOK

General economic uncertainty can possibly still continue. This complicates company revenue estimation for full year 2012. For this reason at this stage the company doesn't give any full year 2012 revenue estimates. The company estimates though that the first quarter 2012 revenue will grow compared to first quarter 2011. This estimate is based on earlier January released license sale to UK financial institution.

Tectia believes that it is not justified at the moment to give profitability estimates for year 2012 mainly due to following reasons:

Amount of R&D investment into new still under development products, starting the delivery and sales of the new products and demand;

In addition the macroeconomic environment increasingly complicates future outlook estimates and reliable target setting;

Large portion of company revenue is invoiced in USD currency so possible large fluctuation in USD currency rates during 2012 could have unpredictable effects into profitability that are at the time difficult to estimate.

Global audit firm valuation experts have provided during fall time 2011 the company with a valuation estimate for some of its patents and patent applications, according to which the fair market value of these would be approximately EUR 1 million. These patents were developed for the company´s IPSec-technology related products and are not used in current products. New applications have emerged for technologies described and claimed in the patents, e.g. VoIP (Voice-over-IP) and 3GPP LTE (Long Term Extension, or 4G) networks and smart phones. It is possible that the most important of the patent applications will be granted and that they will be essential for some of the standards in the area. It is also possible that the actual future sale price or other income from them would be substantially higher than the estimated value. The potential income will, however, most likely not be realized for several quarters and no asset from these patents has been booked in the balance sheet.

NET SALES

Consolidated net sales for January-December totalled EUR 8.1 million (EUR 9.1 million), down by 11.4% year on year.

Tectia mainly bills its jobs in USD. During the report period, the average exchange rate of USD to EUR strengthened by c. 5.0% compared to the same period a year ago. Without the change in exchange rates, net sales would have decreased by only 8.8% on 2010.

CHANGE IN BUSINESS STRUCTURE

To facilitate implementation of its strategy, Tectia set up two separate business units during the first quarter of 2011, reorganising sales, technical sales and customer service. The new business units were Managed Security and Mobile Authentication until the end of September 2011, at which point the company merged the two units for the final quarter of 2011 due to changes in the company's focus. The combining of two business units has no effect on segment reporting.

PROFIT AND PROFITABILITY TRENDS

The operating loss for January–December amounted to EUR -2.0 million (-0.7 million), with net loss totalling EUR -2.2 million (-0.5 million).

Sales, marketing and customer support expenses for the January-December reporting period amounted to EUR -5.4 million (-5.1 million), while research and development expenses totalled EUR -2.5 million (-2.3 million) and administrative expenses EUR -2.0 million (-2.2 million).

Non-recurring items for January-December amounted to EUR -1.1 million, mainly due to the impact of the reorganisation of sales on the channel model and changes in the company's management group. Of the above costs, EUR -0.7 million is related to personnel reductions in Finland. Codetermination negotiations for employees in Finland concluded on 27 September 2011. A further EUR -0.4 million in non-recurring items was incurred through personnel reductions in the USA and Germany and through the closure of the German office.

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 December 31, 2010 stood at EUR 6.4 million (8.3 million), of which liquid assets accounted for EUR 2.5 million (4.0 million), or 39.3% percent of the balance sheet total. On 31 December 2011, gearing, or the ratio of net liabilities to shareholders' equity, was -230.0% (-121.0%), and the equity ratio stood at 36.2% (69.1%).

Investments in tangible and intangible assets during the financial period amounted to EUR 0.7 million (0.1 million). The reported financial income and expenditure consisted mainly of interest on fixed-term deposits and exchange rate gains and losses. Financial income and expenditure totalled EUR -0.1 million (-0.3 million).

Cash flow from business operations totalled EUR -0.8 million (-0.9 million), and cash flow from investments totalled EUR -0.7 million (-0.1 million). Cash flow from financing totalled EUR 2.5 million (-1.4 million). The period under review showed a positive cash flow of EUR 0.9 million (-2.3 million).

RESEARCH AND DEVELOPMENT

Research and development expenses for January-December totalled EUR 2.5 million (2010: 2.3 million; 2009: 3.8 million), or 31.3% of net sales (2010: 25.2%; 2009: 43.0%).

Tectia capitalised EUR 0.6 million in development expenditure (0.0 million) during the period under review.

BUSINESS RISKS

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. The company operates on the rapidly evolving information security software market. The changes on the IT market, particularly in security software, thus have a direct impact on the 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. Asset, interruption and liability risks are covered with insurances.

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. Most of Tectia's invoicing is in US dollars. The company undertook hedging during the period under review to safeguard against exchange rate fluctuations. The company does not apply hedge accounting at this time, so any profits and losses from hedging are recognised in profit/loss. Receivables in foreign currencies are given in note 15 to the consolidated financial statement.

ENVIRONMENT

Tectia bears responsibility for the environment. Tectia's environmental policy seeks to ensure the company meets statutory obligations, promotes recycling and reduces overall waste. The company sorts and recycles all recyclable material.

HUMAN RESOURCES AND ORGANISATION

The Group had 52 (70) employees as at the end of December, down by 18 persons or 25.7% on the previous year. Of the employees, 35 were based in Finland, 14 in the USA and 3 in Hong Kong.

The average age of the employees was 39.4 years. 21% of the employees were women and 79% men. At the end of the period under review, 46% of employees worked in R&D, 39% in sales, marketing and customer support, and 15% in corporate administration.

Jari Mielonen M.Sc.(Econ.) was the CEO from January to September 2011, and Tatu Ylönen from October to December 2011.

As separately announced by the company on 10 February 2012, Jyrki Lalla M.Sc. (Econ.) was appointed the new CFO of Tectia Oyj as of 1 April 2012.

At the end of the reporting period, the parent company had 35 (50) employees on its payroll, on average 44 (50) employees during the period under review. Parent company salaries and bonuses and other personnel expenses during the financial period totalled EUR 3.8 million (3.7 million).

BOARD AND AUDITORS

The members of the Board of Directors of Tectia Oyj elected at the Annual General meeting on 3 March 2011 are Juhani Harvela, Pyry Lautsuo, Juho Lipsanen, Tiia Tuovinen and Tatu Ylönen.

The AGM elected KPMG Oy Ab, authorised public accountants, as the company's auditor, with Kirsi Jantunen, authorised public accountant, as the principal auditor.

PRINCIPAL PROVISIONS OF THE ARTICLES OF ASSOCIATION

According to the Articles of Association, the highest decision-making power in the company is wielded by the shareholders at the shareholders' meeting. The Annual General Meeting is held within six months of the completion of the company's financial period, at a time decided by the Board. The AGM decides the number of members of the Board of Directors and elects them. Additionally, under the Finnish Limited Liability Companies Act, the AGM has the authority to amend the company's Articles of Association, adopt the financial statements, approve the amount of dividend and select the company's auditors. Each Tectia share conveys one vote at the shareholder's meeting. Under the Articles of Association, the CEO is appointed by the Board of Directors.

CORPORATE GOVERNANCE

Tectia complies with NASDAQ OMX Helsinki Ltd, and the joint recommendations of the NASDAQ OMX Helsinki Ltd, the Helsinki Chamber of Commerce, and the Confederation of Finnish Industries regarding corporate governance of publicly listed companies. More information on corporate governance is available on the company website at www.ssh.com, together with a description of the corporate governance system.

SHARES, SHAREHOLDING AND CHANGES IN THE GROUP STRUCTURE

The reported trading volume of Tectia corporation shares totalled 2,287,515, valued at EUR 1,171,363 (2010: 4,512,942 at EUR 4,111,060). The highest and lowest quotations during the financial period were EUR 0.89 (1.15) and EUR 0.29 (0.76), respectively. The trade-weighted average share price for the period was EUR 0.51 (0.91), and the share closed on 30 December at EUR 0.30 (0.83). The company has one series of shares; each share entitles its holder to one vote at the shareholders' meeting.

The company's principal owner Tatu Ylönen holds 45.5% of the company's shares and votes. Assetman Oy holds 13.1% and SSH Management Investment Oy holds 4.7%. More information about the shareholding can be obtained from the company web site.

Tectia corporation has the subsidiaries Tectia Inc. in the USA, Tectia Ltd in Hong Kong and Tectia Operations Oy and Tectia Solutions Oy in Finland. Tectia Operations Oy has branches in the UK and Germany. Two new Group companies were founded during the financial period: Tectia Solutions Oy and Tectia Licensing S.A R.L (Luxembourg).

SSH Management Investment Oy is included in the Tectia Group consolidated financial statement pursuant to the shareholder agreement. More information on related party transactions concerning this arrangement is available in note 32 to the consolidated financial statement.

INFORMATION ON SHAREHOLDERS

DISTRIBUTION OF OWNERSHIP BY SECTOR

Type of sector	No. of shares	Percentage of shares and votes
Companies	7,615,567	24.93
Financial and insurance institutions	490,203	1.61
Public corporations	483,450	1.58
Non-profit organisations	81,550	0.27
Households and private individuals	21,817,264	71.42
Foreign shareholders	61,474	0.20
Total	30,549,208	100.00

DISTRIBUTION OF HOLDINGS BY NUMBER OF SHARES

Shares	No. of shareholders	Percentage of shareholders	Total no. of shares	Percentage of shares
1–100	1,978	43.89	113,043	0.37
101–500	977	21.68	302,507	0.99
501–1 000	526	11.67	454,004	1.48
1 001–5 000	773	17.15	1,930,371	6.32
5 001–10 000	133	2.95	1,029,222	3.37
10 001–50 000	95	2.11	2,080,413	6.81
50 001–100 000	10	0.22	649,516	2.13
100 001–500 000	9	0.20	1,874,285	6.14
500 001–999 999 999	6	0.13	22,115,847	72.39
Total	4,507	100	30,549,208	100.00
of which nominee-registered	6		432,679	1.42

TOP TEN SHAREHOLDERS AS AT 31 DEC 2011, EXCLUDING NOMINEE-REGISTERED SHAREHOLDERS

	%	Shares
Ylönen Tatu	45.56	13,919,048
Assetman Oy	13.09	4,000,000
SSH Management Investment Oy	4.69	1,433,750
Kivinen Tero	3.95	1,205,640
Tilitoimisto Capital Oy	3.27	1,000,000
Siltanet Oy	1.83	558,659
Ilmarinen Mutual Pension Insurance Company	1.58	483,450
Ohlsbom Janne	0.68	208,782
Oy Autocarrera Ab	0.65	200,000
Poutanen Jukka	0.49	150,000
Total	75.80	23,159,329
Nominee-registered	1.42	432,679

SHARE CAPITAL AND BOARD AUTHORISATIONS

The registered share capital of Tectia corporation as at 31 December 2011 was EUR 916,476, divided into 30,549,208 shares.

SHARE SUBSCRIPTIONS USING OPTION CERTIFICATES FROM THE COMPANY STOCK OPTION PLANS IN 2011 AND 2010 (NO. OF SHARES):

	2011	2010
I/1999 option plan class C option certificates	250	100
I/1999 class D option certificates	250	100
I/1999 class E option certificates		500
I/1999 class F option certificates	500	650
I/1999 class H option certificates	0	350
II/2003 option plan class C option certificates	0	500
II/2003 class D option certificates	0	500
TOTAL	1,000	2,700

The stock option subscriptions led to an increase of EUR 30.00 (81.00) in share capital.

The AGM approved the Board of Directors' proposal to authorise the Board of Directors to decide upon the issuing of 5,500,000 shares in all, 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 Limited Liability Companies Act, either in accordance with the shareholders' pre-emptive right to share subscription or by derogation from this right. This authorisation is effective until the next AGM, though no later than 30 June 2012.

The AGM approved the Board of Directors' proposal to authorise the Board of Directors to decide upon the acquiring of a maximum of 2,000,000 of the company's own shares, about 6.55% of the company's total shares, in one or more tranches, with assets belonging to the company's non-restricted equity. 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 a public trading arranged by NASDAQ OMX Helsinki Ltd. Furthermore, the AGM decided to authorise the Board of Directors to decide to accept a maximum of 1,500,000 own shares pledged as security, in one or more tranches. This is about 4.91% of the total shares of the company. The authorisation to acquire the shares and the authorisation concerning the acceptance of security shall be valid at most for eighteen (18) months after the decision of the AGM.

SHARE-BASED PAYMENTS

The share-based payments of Tectia Group are stock options granted to the management and employees. AGMs in 1998, 1999, 2000, 2001, 2002, 2003 and 2008 decided to issue stock options.

Each option gives the right to subscribe to one new share at a price and at a time specified in the terms of the stock option plan. The option rights will be cancelled in case the employee leaves the company before the subscription time has begun. There are no other conditions to the beginning of the option rights.

The shares subscribed with the granted option rights include the rights to any dividend payable for the reporting period during which the shares were subscribed. Other shareholder rights commence as soon as the increase in the share capital has been registered in the Trade Register. The stock option plan (I/1999) class C, D, E, F, G, and H certificates are also traded on the NASDAQ OMX Helsinki.

More information on stock option plans is given in note 22 to the consolidated financial statement.

RELATED PARTY TRANSACTIONS

Clausal Computing Oy, a company wholly owned by Tatu Ylönen, CEO of Tectia corporation, has supplied Tectia corporation with R&D services worth EUR 0.1 million in the course of the year 2011. There were no other essential related party transactions during the period under review.

EVENTS AFTER THE BALANCE SHEET DATE

A significant financial institution in the UK increased its investment in SSH technology by ordering software licenses and maintenance services for EUR 0.9 million in all. The software and licenses under this order will be delivered and recognised as income in the first quarter of 2012, and the maintenance sales will be recognised during the 2012 financial period.

The company management does not know of any other essential events after the balance sheet date that would have affected the financial situation of the company.

DIVIDEND AND OTHER DISTRIBUTION OF ASSETS

The Tectia Board of Directors will propose to the AGM that no dividend or return of capital be distributed. It is proposed that the loss for the financial period be entered under equity in the balance sheet.

Financial indicators

	1 Jan 2011–31 Dec 2011	1 Jan 2010–31 Dec 2010	1 Jan 2009–31 Dec 2009
Net sales, EUR	**8,058,571**	9,099,750	8,811,906
Operating profit/loss, EUR	**-2,036,349**	-717,676	-1,487,043
% of net sales	**-25.3**	-7.9	-16.9
Profit/loss before taxes, EUR	**-2,172,958**	-454,391	-198,543
% of net sales	**-27.0**	-5.0	-2.3
Profit/loss before taxes, EUR	**-2,172,958**	-454,391	-1,163,879
% of net sales	**-27.0**	-5.0	-13.2
Return on equity, %	**-110.0**	-12.8	-12.4
Return on investments, %	**-99.6**	-10.5	-10.8
Net interest-bearing debt	**-2,495,335**	-3,995,216	-6,385,177
Gearing, %	**-230.0**	-121.0	-144.2
Equity ratio, %	**36.2**	69.1	71.4
Gross investments in tangible and intangible assets, EUR	**709,944**	97,800	112,643
% of net sales	**8.8**	1.2	1.3
Research and development costs, EUR	**2,518,805**	2,314,400	3,788,917
% of net sales	**31.3**	25.2	43.0
% of net sales (without investments)	**31.3**	25.2	43.0
Personnel on average	**61**	68	66
Personnel at the end of the period	**52**	70	64
Salaries and fees, EUR	**5,040,780**	4,890,580	5,284,238

Indicators per share

	1 Jan 2011–31 Dec 2011	1 Jan 2010–31 Dec 2010	1 Jan 2009–31 Dec 2009
Earnings per share, EUR	**-0.07**	-0.02	-0.04
Earnings per share, considering dilution effect, EUR	**-0.07**	-0.02	-0.04
Equity per share, EUR	**0.03**	0.10	0.15
Dividends, EUR	**0**	-	0
Dividends per share, EUR	**0.00**	0.00	0.00
Dividend pay-out ratio, %	**-**	-	-
Effective dividend yield, %	**0.0**	0.0	0.0
Return of capital, EUR	**0.0**	1,494,922	8,595,680
Return of capital per share, EUR	**0.00**	0.05	0.30
Adjusted average number of shares during the period, 1,000	**30,549**	29,900	28,791
Adjusted average number of shares at the end of period, 1,000*	**30,549**	30,548	29,898
Adjusted average number of shares considering dilution effect, 1,000	**30,563**	29,922	29,919
Price per earnings ratio (P/E)	**-4.2**	-52.1	-18.9
Market capitalisation at the end of the period, EUR million	**9.2**	24.8	23.0
Share performance on the Helsinki Exchanges, EUR			
Average price	**0.51**	0.91	0.79
Share price, year-end	**0.30**	0.83	0.77
Lowest quotation	**0.29**	0.76	0.65
Highest quotation	**0.89**	1.15	1.24
Volume of shares traded, millions	**2.3**	4.5	5.1
Volume of shares traded, % of total number	**7.5**	15.1	17.0
Volume of shares traded, EUR million	**1.2**	4.1	4.0

** This figure includes the shares transferred to Siltanet Oy, which may be further transferred in 2011.*

Calculation of financial ratios

Return on Equity, % (ROE)	Profit/loss for the financial period / Equity (average during the financial period)	x 100
Return on investment, % (ROI)	Profit/loss before taxes + interest and other financial costs / Balance sheet total – non-interest bearing debts (average during the financial period)	x 100
Equity ratio, %	Equity / Balance sheet total – advance payments received	x 100
Earnings per share (EPS)	Profit/loss for the financial period / Average number of outstanding shares during the financial period	
Dividend per share	Dividend / Number of outstanding shares during the financial period	
Dividend pay-out ratio %	Dividend per share / Earnings per share	x 100
Equity per share	Equity / Number of outstanding shares on the financial statement date, adjusted for share issue	
Gearing %	Interest – bearing debt – liquid assets / Equity	x 100

Consolidated financial statement

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

COMPREHENSIVE INCOME STATEMENT

EUR	Note*	**1 Jan – 31 Dec 2011**	1 Jan – 31 Dec 2010
NET SALES	4	**8,058,572**	9,099,750
Cost of goods sold		**139,772**	216,401
GROSS MARGIN		**7,918,800**	8,883,349
Other operating income	5	**1,536**	48,392
Sales and marketing costs	6, 7	**5,418,678**	5,137,991
R&D costs	6, 7	**2,518,805**	2,314,400
Administrative costs	6, 7	**2,019,202**	2,197,036
OPERATING PROFIT/LOSS		**-2,036,349**	-717,676
Financing income and costs		**71 154**	301 178
Other interest and financial income		**207 815**	37 883
Other interest and financial costs		**-2 173 010**	-454 391
Financial income	8	**71,154**	301,178
Financial costs	9	**207,815**	37,883
PROFIT/LOSS BEFORE TAXES		**-2,173,010**	-454,391
Income tax	10	**21,234**	22,001
PROFIT/LOSS FOR THE FINANCIAL PERIOD		**-2,194,244**	-476,392
OTHER COMPREHENSIVE INCOME/COSTS		**-2 121 074**	-733 452
Translation differences		**73,170**	-257,060
		-2 177 230	-460 966
COMPREHENSIVE PROFIT/LOSS FOR THE FINANCIAL PERIOD		**-2,121,074**	-733,452
Profit/loss for the financial period attributable to			
equity holders of the parent company		**-2,177,230**	-460,966
non-controlling interest		**-17,014**	-15,426
		-17 014	-15 426
Comprehensive profit/loss for the financial period attributable to:			
equity holders of the parent company		**-2,104,060**	-718,026
non-controlling interest 1)		**-17,014**	-15,426
Earnings per share (undiluted)	11	**-0.07**	-0.02
Earnings per share (diluted)	11	**-0.07**	-0.02

1) The portion of the profit/loss and comprehensive profit/loss attributed to non-controlling interest is attributed to SSH Management Investment Oy.

** The notes constitute an essential part of the financial statement.*

CONSOLIDATED BALANCE SHEET

BALANCE SHEET

EUR	Note*	**31 Dec 2011**	31 Dec 2010
ASSETS			
NON-CURRENT ASSETS			
Tangible assets	12		
Machinery & equipment		**141,367**	165,042
Other tangible assets		**1,090**	1,957
Tangible assets, total		**142,457**	166,999
Intangible assets	13		
Immaterial rights		**1,302,701**	840,981
Intangible assets, total		**1,302,701**	840,981
Investments			
Other shares		**14,467**	11,000
Investments total		**14,467**	11,000
NON-CURRENT ASSETS, TOTAL		**1,459,626**	1 018,980
CURRENT ASSETS			
Short-term receivables			
Accounts receivable	15	**2,090,774**	2,804,244
Other receivables	16	**332,557**	439,577
Prepaid expenses and accrued income	17	**59,826**	43,051
Current receivables, total		**2,483,157**	3,286,872
Investments			
Investments held to maturity	18		2,452,744
Investments total			2,452,744
Cash and cash equivalents		**2,414,681**	1,495,684
CURRENT ASSETS, TOTAL		**4,897,838**	7,235,300
ASSETS, TOTAL		**6,357,464**	8,254,280

** The notes constitute an essential part of the financial statement.*

BALANCE SHEET

EUR	Liitetieto*	**31.12.2011**	31.12.2010
SHAREHOLDERS' EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY SHAREHOLDERS			
Share capital		**916,476**	916,446
Fair value and other reserves		**151,682**	139,150
Translation differences		**-1,181,095**	-1,254,265
Unrestricted invested equity fund		**4,429,472**	4,429,472
Other equity fund		**85,000**	85,000
Fund for own shares		**-980,240**	-980,240
Retained earnings		**-2,576,725**	-399,496
		844,570	2,936,068
NON-CONTROLLING INTEREST			
Non-controlling interest [1]		**234,200**	251,214
EQUITY, TOTAL	20	**1,078,770**	3,187,281
NON-CURRENT LIABILITIES			
Deferred tax liabilities	14	**0**	730
Financial liabilities	23	**121,652**	17,632
NON-CURRENT LIABILITIES, TOTAL		**121,652**	18,362
CURRENT LIABILITIES			
Advances received	24	**3,373,604**	3,634,385
Accounts payable	25	**496,253**	213,044
Accrued expenses and deferred income	26	**1,054,035**	956,301
Other liabilities	23,27	**233,149**	244,907
CURRENT LIABILITIES, TOTAL		**5,157,041**	5,048,637
LIABILITIES, TOTAL		**5,276,003**	5,066,999
EQUITY AND LIABILITIES, TOTAL		**6,357,464**	8,254,280

1) The portion attributed to non-controlling interest consists of the holding of SSH Management Investment Oy in Tectia corporation.

** The notes constitute an essential part of the financial statement.*

CONSOLIDATED CASH FLOW STATEMENT

CASH FLOW STATEMENT

EUR	Note*	**1 Jan–31 Dec 2011**	1 Jan–31 Dec 2010
Cash flow from business operations			
Sales revenue	4,15,25	**8,623,700**	9,097,236
Revenue from other business operations		**1,536**	48,392
Costs of business operations	6,7,23,26,27,28	**-9,348,864**	-10,070,500
Interest and payments on other financial costs of business operations		**-117,049**	-33,142
Interest and other financial revenue from business operations		**6,401**	35,171
Taxes paid		**-5,604**	-27,536
Cash flow from business operations		**-839,880**	-950,380
Cash flow from investing activities			
Investments in tangible and intangible assets	12,13	**-693,897**	-147,800
Other investments		**0**	0
Proceeds from sale of investments	19	**0**	0
Interest revenue from investments			55,707
Cash flow from investing activities		**-693,897**	-92,093
Cash flow from financing activities			
Proceeds from short-term financial investments		**2,452,744**	67,356
Proceeds from issuance of share capital		**30**	81
Return of capital 1)	20		-1,423,235
Cash flow from financing activities		**2,452,744**	-1,355,798
Change in liquid assets		**918,997**	-2,398,271
Liquid assets at beginning of period	19	**1,495,684**	3,905,791
Exchange rate adjustment			-11,836
Change in liquid assets		**918,997**	-2,398,271
Liquid assets at end of period	19	**2,414,681**	1,495,684

1) Return of capital to SSH Management Investment Oy eliminated from this figure.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Note	Share capital	Other equity fund	Fair value and other reserves	Translation differences	Unrestricted invested equity fund	Fund for own shares	Retained earnings	Non-controlling interest	Equity total
		Equity attributable to the parent company shareholders								
Equity as at 1 Jan 2010		**896,953**	125,574		**-997,205**	**5,393,806**	-1,051,927	**61,471**		**4,428,672**
Comprehensive profit/loss										
Profit/loss for the period								-460,966	-15,426	-476,392
Other comprehensive items										
Translation differences		,	,	,	-257,060	,	,	,	,	-257,060
Comprehensive profit/loss for the financial period, total					-257,060			-460,966	-15,426	-733,452
Transactions with shareholders										
Shares subscribed on option rights		81								81
Siltanet Oy, sale of business		19,412		85,000		530,588				635,000
Return of capital						-1,494,922	71,688			-1,423,235
SSH Management Investment Oy		,	13,576	,	,	,	,	,	266,640	280,216
Transactions with shareholders, total		19,493	13,576	85,000	,	-964,334	71,688	,	266,640	-507,938
Equity as at 31 Dec 2010		**916,446**	139,150	**85,000**	**-1,254,265**	**4,429,472**	**-980,240**	**-399,496**	251,214	**3,187,282**
Equity as at 1 Jan 2011		**916,446**	139,150	**85,000**	**-1 254,265**	**4,429,472**	**-980,240**	**-399,496**	251,214	**3,187,282**
Comprehensive profit/loss										
Profit/loss for the period								-2,177,230	-17,014	-2,194,244
Other comprehensive items										
Translation differences					73,170					73,170
Comprehensive profit/loss for the financial period, total		0	0	0	73,170	0	0	-2,177,230	-17,014	-2,121,287
Transactions with shareholders										
Shares subscribed on option rights	20	30								30
Return of capital										0
SSH Management Investment Oy			12,532							12,532
Transactions with shareholders, total		30	12,532	0	0	0	0	0	0	12,562
Equity as at 31 Dec 2011		**916,476**	**151,682**	**85,000**	**-1,181,095**	**4,429,472**	**-980,240**	**-2,576,725**	**234,200**	**1,078,770**

** Elimination of shares held by SSH Management Investment Oy and entry as a stock option cost.*
The equity of the company is shown as the non-controlling interest. More information on the company is given in note 32 to the consolidated financial statement.

Notes to the consolidated financial statements

1 GENERAL INFORMATION

Tectia corporation (formerly SSH Communications Security) is a provider of real-time security software solutions for modern, networked organisations. Tectia solutions facilitate and support the business operations of thousands of customers in various areas in the public and private sectors. We provide our customers with the fastest way of securing and strengthening their telecommunications system and its nodes. Our strength is the ability to provide the fastest track for our customers to securing, automating, managing and sharing data-in-transit in cross platform environments without expensive and time-consuming solutions and interruption to business. Tectia solutions are sold as licensed software with maintenance and support agreements.

The Tectia Group consists of Tectia corporation and its wholly owned subsidiaries. Tectia corporation is domiciled in Helsinki, Finland and is a publicly traded company. The subsidiaries of Tectia are Tectia Inc. (USA), SSH Management Investment Oy, Tectia Ltd. (Hong Kong), Tectia Solutions Oy and Tectia Licensing S.A R.L., and Tectia Operations Oy, which has operations in Finland, the UK and Germany. Tectia corporation has its registered office at address Kumpulantie 3, 00520 Helsinki, Finland.

The Tectia Board of Directors approved this financial statement for publication at its meeting on 14 February 2012. Under the Finnish Limited Liability Companies Act, the shareholders can accept or reject the financial statement at the AGM held after its publication. The AGM is also entitled to alter the financial statement. A copy of the financial statements is published as a part of the company's annual report. The annual report is available on the company website (HYPERLINK "www.tectia.com" www.tectia.com) or at the head office of Tectia corporation. All stock exchange bulletins are available on the company website.

2 ACCOUNTING PRINCIPLES

BASIS OF PREPARATION

The consolidated financial statement has been prepared in compliance with the International Financial Reporting Standards (IFRS) including the International Accounting Standard (IAS) and International Financial Reporting Standards (IFRS) as well as the interpretations by Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) in force as at 31 December 2011. The aforementioned standards are the standards and interpretations thereof approved for use in the EU pursuant to Regulation (EC) No. 1606/2002 implemented in the Finnish Accounting Act and legislation based thereon. The notes to the consolidated financial statement are also compliant with Finnish accounting and company legislation.

The consolidated financial statement is based on original acquisition costs unless otherwise noted in the accounting principles. The consolidated financial statement is presented in full euros unless otherwise stated.

In November 2009, the Management Group and CEO of the Group set up a company named SSH Management Investment Oy (SMI), through which the management incentive scheme has been implemented. The company owns 1,433,750 shares in the parent company. This arrangement is explained in more detail under note 32 'Group companies and related party transactions' to the consolidated financial statement. The parent company holds a controlling interest in SSH Management Investment Oy pursuant to the terms and conditions of the shareholders' agreement, and accordingly the company is incorporated in the consolidated financial statement. The shares in the parent company held by SSH Management Investment Oy are deducted from the Group's unrestricted equity. The deduction from equity is recognised under the fund for own shares. The investments made in the company by the shareholders of SSH Management Investment Oy are recognised as non-controlling interest in the consolidated balance sheet.

SUBSIDIARIES

The consolidated accounts include the parent company Tectia corporation and all its subsidiaries. Subsidiaries are companies in which the Group has a controlling interest. A controlling interest is created when the Group owns more than half of the votes in a company or the Group otherwise exercises control over a company. Potential voting powers are also taken into account when evaluating a controlling interest if the instruments in which the potential voting powers are vested are realisable at the time of analysis. A controlling interest means having the right to issue orders concerning a company's finances and business principles in order to benefit from its operations.

Group-internal share ownership is eliminated using the purchase method. 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. All Group-internal transactions, receivables and debts, unrealised profit, and profit distribution have been eliminated.

CONVERTING FOREIGN CURRENCY TRANSACTIONS

Items of each subsidiary included in the consolidated financial statements are measured using the currency of the operating environment of that subsidiary ('functional currency'). The consolidated financial statements are presented in euros, which is the functional and reporting currency of the parent company.

Transactions in foreign currency

Foreign currency denominated transactions are recognised at the exchange rate of the functional currency on the transaction date. In practice, the exchange rate used is approximately the rate of the transaction date. Outstanding receivables and liabilities in foreign currencies are measured using the exchange rates on the balance sheet date. Exchange rate gains and losses on actual business operations are treated as adjustment items of sales costs or purchase and production costs above the operating profit. Exchange rate gains and losses on financing are included in financing income and costs.

Translation of financial statements of foreign subsidiaries

The comprehensive income statements of subsidiaries whose functional currency is other than EUR are translated into euros using the exchange rate of the transaction dates. In practice, the translations are done once a month using the monthly average exchange rate. Balance sheet items are translated into euros with the exchange rate of the balance sheet date. The translation of the comprehensive profit/loss for the financial period using different exchange rates in the comprehensive income statement on the one hand and in the balance sheet on the other causes a translation difference recognised under Group equity under other comprehensive profit/loss items. Translation differences generated through elimination of the acquisition costs of foreign subsidiaries and translation of equity items accrued after acquisition are recognised under other comprehensive profit/loss items. When a subsidiary is sold, accumulated translation differences are recognised in the income statement as part of the gain or loss on the sale.

REVENUE RECOGNITION

Tectia net sales derive mainly from software license sales and maintenance fees. Net sales comprise the invoiced value for the sale of goods and services adjusted with any discounts given, sales taxes, and exchange rate differences.

The revenue from product sales is recognised at the time when significant risks and rewards of the product or the right of use of the product have been transferred to the buyer and there is a binding contract between the parties, the delivery has taken place in accordance with the contract, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will accrue to the company.

Maintenance agreements are recognised evenly on an accrual basis throughout the contract period. Revenues from services are recognised when the service has been delivered and it is probable that the economic benefits associated with the transaction will accrue to the company.

GOVERNMENT GRANTS

Government grants, for example grants received from the government for a purchase of tangible assets, are entered as a deduction of the book value of the asset when there is reasonable assurance that the company will receive the grant and will comply with the conditions attaching to the grant. Grants are recognised as income over the life of a depreciable asset by way of a reduced depreciation. Government grants that are intended to compensate costs are recognised as income over the same period as the related costs are recognised. These government grants are presented under other operating income. The company has a R&D capital loan from TEKES which was transferred as part of the Siltanet business operations transaction in 2010. This loan is not of a significant magnitude.

PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment of Group companies are measured in the balance sheet at cost less accumulated straight-line depreciation and eventual impairment losses. When a part of a current assets item is treated as a separate asset, expenses related to its replacement are capitalised and any remaining book value is written off. Expenses incurring at a later date are included in the class of property, plant and equipment only if it is probable that the property will provide future economic benefits to the Group and that the acquisition cost can be reliably determined. Other repair and maintenance expenses are recognised in profit/loss as and when incurred.

Depreciation is calculated on a straight-line basis to reduce the purchase value of each asset item 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 leasing agreements: 3–5 years from month of acquisition, depending on the depreciation period for corresponding items.

Major renovations of rental premises: According to length of the rental agreement, though no more than 7 years from year of acquisition.

The residual value and useful life of assets are reviewed for each financial statement and, if necessary, adjusted to indicate changes expected in the assets' economic benefits.

The depreciation on property, plant and equipment is ceased when the asset is classified as held for sale in accordance with standard IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Capital gains and losses are determined by comparing proceeds received with the book value of sold assets. Impairment losses incurred through transfer are recognised under other operating costs.

INTANGIBLE ASSETS

Research and development costs

Research costs are recognised as costs in the income statement. Development costs (related to the design and testing of new or improved products) are recognised as intangible assets if capitalisation criteria are fulfilled and if it is probable that their economic benefits will accrue to the company pursuant to IAS 38. The most significant development costs to be capitalised constitute R&D personnel costs and sub-contracting costs. Other development costs are recognised directly as costs. Development costs once recognised as costs are not capitalised in subsequent financial periods.

Depreciation begins when an asset is ready for use. Incomplete assets are tested annually for impairment. After initial recognition, capitalised development costs are measured at cost less accumulated depreciation and impairment losses. Capitalised development costs are depreciated on a straight-line basis over their economic lifetime, estimated at 3–5 years.

Software

Software includes acquired software licenses. These assets are entered in the balance sheet at cost and depreciated on a straight-line basis over their economic lifetime. The residual value and useful life of assets are reviewed for each financial statement and, if necessary, adjusted to indicate changes expected in the assets' economic benefits. The economic lifetime does not generally exceed 5 years. The depreciation period for software acquired for internal use is 3–5 years.

Other immaterial rights

Immaterial rights include technology patents obtained, trademarks, customer registers and technology rights. These are entered in the balance sheet at cost and depreciated on a straight-line basis over their economic lifetime. The residual value and useful life of assets are reviewed for each financial statement and, if necessary, adjusted to indicate changes expected in the assets' economic benefits. The economic lifetime does not generally exceed 5 years.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

The Group will review on each balance sheet date whether there is any indication of an impaired asset. Whenever indicators of impairment exist, the book value of such an asset is compared with its recoverable amount. The recoverable amount is the fair value of the asset less the costs of its sale, or its value in use, whichever is the higher. The value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The discount rate used to calculate the above is pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

Whenever the book value of an asset exceeds its recoverable amount, an impairment loss will be recognised for that asset. The impairment loss is recognised immediately in the income statement. After the recognition of an impairment loss, the economic lifetime of an asset subject to depreciation is re-evaluated. An impairment loss recognised in prior periods for an asset other than goodwill will be reversed if there is a change in the estimates that have been used in assessing the recoverable amount of that asset.

FINANCIAL ASSETS AND LIABILITIES

Financial assets

The Group has classified its financial assets into the following categories: investments held to maturity; and loans and receivables. The assets are classified when originally acquired. The assets are initially recognised at fair value. Transaction costs are included in the original book value of an asset if the asset is not to be recognised at fair value in profit/loss. Financial assets are written off from the balance sheet when the contractual right to cash flows from an asset included in financial assets ends or when the significant risks and rewards related to the asset are transferred outside the Group. All asset purchases and sales are recognised on the date of the transaction.

Investments held to maturity are financial assets other than derivative assets whose payments are made according to a fixed plan, which mature on a defined date and which the Group can and intends to keep until they mature. These are measured at amortised acquisition cost and recognised under current assets.

Loans and other receivables are assets other than derivative assets and with a fixed or definite series of payments. These assets are unlisted and not held for trading. They are measured at amortised acquisition cost. They are recognised under current or non-current financial assets in the balance sheet depending on their nature: assets expiring in more than 12 months are recognised under non-current assets.

Cash and cash equivalents

Cash and cash equivalents include cash balances, short-term deposits with banks and other short-term liquid investments with maturity up to 3 months at the time of acquisition.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is, the impairment will immediately be entered in the income statement. If an impairment on an interest instrument is later reversed, this will be recognised in profit/loss.

The Group recognises an impairment loss on trade receivables when there is objective evidence that a receivable is not fully collectible. Significant financial difficulties, likelihood of bankruptcy, neglect of payments or delay of payment by more than 90 days on part of a debtor may be considered to constitute such evidence for an impairment loss on trade receivables. The impairment loss recognised in the income statement is the difference between the book value and current value of estimated future cash flows of a receivable discounted at the effective interest rate. If impairment loss is decreased during any later period and the basis for this can objectively be related to an event occurred after the original impairment, the reversal will be recognised in profit/loss in the income statement.

Financial liabilities

The Group's financial liabilities are classified into financing liabilities recognised at fair value in profit/loss and other financial liabilities (financing liabilities recognised at amortised acquisition cost). A financial liability is classified as current if the Group does not have the absolute right to postpone repayment to at least 12 months from the end of the period under review. A financial liability (or part thereof) will not be written off the balance sheet until it has ceased to exist, i.e. when the obligation specified in the agreement has been discharged or reversed and its period of validity has expired.

In the Tectia Group, Financial liabilities recognised at fair value in profit/loss includes the derivative instruments which do not fulfil the criteria for hedging accounting and which are not warrants (currency derivatives). Unrealised and realised profits/losses due to changes in the fair value of these derivatives are recognised in profit/loss in the financial period during which they are generated.

Other financial liabilities (financing liabilities recognised at amortised cost) include, most significantly, the Group's finance leasing liabilities and accounts payable. They are initially recognised at fair value. After the original recognition, other financial liabilities are measured at amortised acquisition cost using the effective interest rate method.

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 leasing agreements are capitalised at the beginning of the lease at the fair value of the leased asset or the current value of the minimum lease payments, whichever is lower. An asset based on a finance leasing agreement will be depreciated over its useful life or within the lease term, whichever is shorter. Lease payments are apportioned between the finance charge and repayment on the outstanding liability over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. 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 recognised in the income statement on a straight-line basis over the period of the lease.

EARNINGS PER SHARE

The undiluted earnings per share is calculated by dividing the net profit/loss for the financial year by the weighted average number of ordinary shares outstanding during the financial year. Treasury shares held by the Group are not included in the number of outstanding shares. A dilutive effect caused by stock options exists when the subscription price of a share is lower than the fair value of the share. In the calculation of diluted earnings per share, stock options are only considered dilutive when their conversion to ordinary shares would decrease earnings per share or increase the loss per share from continuing operations. In other words, when the Group declares a loss, no dilutive effect will be calculated.

SHARE CAPITAL

Ordinary shares are presented as share capital. Dividends paid on ordinary shares are deducted from equity in the period during which the decision to distribute dividends is made.

Share issue costs

Costs directly related to an issue of new shares, other than costs attributable to a business combination, are deducted, net of tax, from the proceeds recognised under equity. Share issue costs directly attributable to business combinations are included in acquisition costs.

Own shares

If Tectia corporation or its subsidiaries purchases Tectia shares, the compensation paid, including any related incremental external costs, net of tax, is deducted from total equity as own shares until the shares are cancelled or transferred. If own shares are subsequently sold, any compensation received will be recognised under equity.

GROSS MARGIN

Gross margin is equal to net sales less the acquisition costs of materials and services.

OPERATING PROFIT/LOSS

Operating profit/loss is equal to earnings before interest and taxes.

INCOME TAX

Tax expenses in the income statement comprise tax based on taxable income for the period and deferred tax. Income tax is recognised in the income statement except for taxes related to items recognised under comprehensive profit/loss or directly under equity, in which case the tax impact will be incorporated in the aforementioned items. Tax based on taxable income for the period is calculated using the corporate income tax rate effective in each country, adjusted for any tax from previous periods.

Deferred taxes are calculated on all temporary differences between the book value and taxable value. The largest temporary differences arise from the financial leasing agreements and unused tax losses which are deductible at a later date.

Deferred taxes are calculated using the statutory tax bases or the tax bases whose confirmed content has been announced by the closing date. Deferred tax assets are recognised to the extent that it is probable that taxable income against which the temporary difference can be applied will materialise in the future. Deferred tax liabilities are recognised at full value in the balance sheet.

EMPLOYEE BENEFITS

Pensions

The Group's pension schemes comply with the relevant regulations and practices in each relevant country. Pension security for Group personnel is handled through external pension insurance companies. The Group applies defined-contribution pension plans, in which the Group pays fixed contributions to an outside unit. The Group has no obligation to make additional payments in case the recipient of the aforementioned contributions cannot discharge its pension payment obligations. Contributions under the defined-contribution plan are recognised in the income statement for the financial period during which the contributions were made.

Equity-based benefits

Option rights have been issued to the Group management (excluding the CEO) and personnel. Option rights are issued with a fixed subscription price determined in the terms and conditions of the option plan.

Option rights are measured at fair value on their date of issue and recognised as a cost in the income statement on a straight-line basis over the vesting period. The expense determined at the time of issuing the stock options is based on the Group's estimate of the number of stock options to which it is assumed that rights will vest by the end of the vesting period. The fair value is determined using the Black-Scholes pricing model. The non-market criteria are not included in the fair value of the option but taken into account in the number of stock options that are assumed to vest at the end of the vesting period. On the date of each financial statement, the Group updates its estimate of the final amount of the stock options that will vest, and changes in this estimate are recognised in the income statement. When the option rights are exercised, the proceeds received, net of any transaction costs, are recognised under share capital and the share premium account.

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that expenditure will be required to settle the obligation, and when a reliable estimate of the amount can be made. If the Group expects an obligation to be partly reimbursed by a third party, the reimbursement is recognised as a separate asset but only when the reimbursement is certain in practical terms. The Group recognises a provision on loss-making agreements when the expected benefits of an agreement are less than the unavoidable costs of meeting the obligations under the agreement.

Provisions are measured at the current value of the costs required to discharge the obligation. The discount rate is determined to reflect current market assessments of the time value of money and the risks specific to the obligation.

New or amended IFRS standards

The following standards, interpretations and amendments that entered into force during the 2011 financial period did not have a substantial impact on the Group's financial statement:

- Revised IAS 24 Related Party Disclosures. The definition of a related party is clarified, and certain disclosure requirements for government-related entities are changed.
- Improvements to IFRS standards, May 2010. The Annual improvements procedure gathers all minor and less urgent amendments into one collection implemented once a year. The amendments concern seven standards and vary by standard.

No other standards, interpretations and amendments that entered into force during the 2011 financial period had a substantial impact on the Group's financial statement.

The following published new or amended standards and interpretations have not yet been applied by Tectia. The Group will introduce these as of the effective date of each standard or interpretation or, if the effective date is not the first day of the financial period, from the beginning of the financial period following the effective date. These amendments are not expected to have a substantial impact on the Group's financial statement:

* = This amendment has not yet been accepted for application in the EU.

- Amendments to IFRS 7 Financial instruments: Disclosures (effective for financial periods beginning on or after 1 July 2011): Enhancing disclosures about transfers of financial assets, disclosures about fair value and liquidity risk and their impact on a company's financial position, especially in the case of securitisation of financial assets.
- Amendments to IAS 12 Income Taxes *(effective for financial periods beginning on or after 1 January 2012): Underlying assumptions in the recognition of deferred taxes. According to these amendments, the book value of certain items measured at fair value, such as investment real estate, will in the future be expected to be based on asset sales instead of continuing use.
- Amendments to IAS 1 Presentation of Financial Statements *(effective for financial periods beginning on or after 1 July 2012): The key change here is the requirement to revise the way items under other comprehensive income are presented depending on whether they may later be recognised in profit/loss if certain criteria are fulfilled.
- Amendments to IAS 19 Employee Benefits *(effective for financial periods beginning on or after 1 January 2013): In the future, all actuarial gains and losses will be recognised immediately under other items in the

comprehensive income statement, i.e. the 'pipe method' will be abandoned and the financing cost will be determined on an offset basis.

- IFRS 10 Consolidated Financial Statements *(effective for financial periods beginning on or after 1 January 2013): In accordance with current principles, IFRS 10 defines controlling interest as the key factor for deciding whether to incorporate a company in the consolidated financial statement. The standard also provides further instructions on how to determine a controlling interest in situations where it is difficult to estimate.
- IFRS 12 Disclosure of Interests in Other Entities (effective for financial periods beginning on or after 1 January 2013): IFRS 12 is a compilation of the requirements for information to be presented in financial statements. These have to do with holdings in other entities, including associated companies, joint ventures, structured units and other off-balance-sheet entities.
- IFRS 13 Fair Value Measurement *(effective for financial periods beginning on or after 1 January 2013): IFRS 13 is a compilation of the requirements for measuring fair value and for presenting related information in financial statements, together with a new definition of 'fair value'. The application of fair value is not extended, but the standard provides instructions on how to determine fair value when it is applicable or required under another standard.
- Amendments to IFRS 7 Financial instruments: Disclosures (effective for financial periods beginning on or after 1 January 2013): The revised standard requires disclosure of any information related to the impact of offsetting arrangements in the balance sheet. The notes required by these amendments must be presented retroactively.
- Amendments to IAS 32 Financial Statements: Presentation *(effective for financial periods beginning on or after 1 January 2014): These amendments clarify the requirements pursuant to regulation of offsetting financial assets and liabilities in the balance sheet. The amended standard must be applied retroactively.
- IFRS 9 Financial Instruments* and amendments thereto (the IASB has deferred the effective date from 1 January 2013 to 1 January 2015): The new standard is intended to replace the existing IAS 39 Financial Instruments: Recognition and Measurement and will be published in three stages. Amendments in the first stage have to do with the classification, recognition and measurement of financial assets and liabilities. Different measurement methods are retained but they have been simplified. Financial assets are divided into two classifications based on their measurement: financial assets measured at amortised cost and financial assets measured at fair value. The classification depends on the company's business model and the contractual provisions of the instrument. Regarding financial liabilities, the majority of the provisions of IAS 19 have been incorporated in the new standard without changes.

Other standards, interpretations and amendments published are not estimated to have an impact on the Group's consolidated financial statement.

MANAGEMENT JUDGMENT IN APPLYING THE MOST SIGNIFICANT ACCOUNTING POLICIES AND OTHER KEY SOURCES OF ESTIMATION UNCERTAINTY

When preparing the financial statement, the Group management has to make estimates and assumptions influencing the content of the financial statement. The management must also exercise its judgment regarding the application of accounting policies. These estimates are based on the management's best knowledge of current events and actions at the time. Potential effects of changes in estimates and assumptions are recorded in the income statement and balance sheet for the financial period during which these estimates and assumptions are adjusted, and also in all subsequent financial periods.

The most important of these estimates and assumptions are related to business combinations, the credit risk of trade receivables and the utilisation of deferred tax assets.

3 SEGMENT INFORMATION

The Group has three segments which are reported as operating segments. These segments are defined as geographical areas. They are based on the Group's internal structure and internal financial reporting. The company's highest operative executive is the CEO. Assessing the profitability of these segments is mainly based on operating profit/loss and gross margin. The nature of the market and its risks are different in each segment.

Segment assets are items which are used by the segment in its business or which can be allocated to the segment. Unallocated items include items shared by the Group.

The Group's operating segments are:

- North and South America (AMERICAS),
- Europe and Rest of World (EROW), and
- Asia and the Pacific (APAC).

The Tectia group operates globally with the same operating model, so that products and services are delivered same way in all operating segments.

GEOGRAPHICAL DISTRIBUTION OF NET SALES:

Region	2011	2010
Finland	351,303	472,366
EROW (excl. Finland)	1,579,671	1,673,627
AMERICAS	4,812,710	5,995,386
APAC	1,314,888	958,372
TOTAL	8,058,572	9,099,750

INCOME STATEMENT

2011	**EROW**	**AMERICAS**	**APAC**	**Unallocated costs**	**Group total**
NET SALES	**1,930,974**	**4,812,710**	**1,314,888**		**8,058,572**
Cost of goods sold	-139,772				-139,772
GROSS MARGIN	**1,791,202**	**4,812,710**	**1,314,888**		**7,918,800**
Other operating income					1,536
Segment costs and depreciations	-833,198	-2,797,994	-498,240	-5,827,252	-9,956,685
OPERATING PROFIT/LOSS	**958,003**	**2,014,716**	**816,647**	**-5827,252**	**-2,036,349**
Financial income					71,154
Financial costs					-207,815
PROFIT/LOSS BEFORE TAXES					**-2,172,958**
Income tax					-21,234
PROFIT/LOSS FOR THE FINANCIAL PERIOD					**-2,194,244**
Segment assets	512,981	1,846,362	417,727	3,580,394	6,357,464

INCOME STATEMENTw

2010	**EROW**	**AMERICAS**	**APAC**	**Unallocated costs**	**Group total**
NET SALES	2,145,993	5,995,386	958,372		9,099,750
Cost of goods sold	-198,656	-1,838	-15,907		-216,401
GROSS MARGIN	1,947,336	5,993,548	942,465		8,883,611
Other operating income	0	0	41	48,351	48,392
Segment costs and depreciations	-1475,777	-2,549,026	-496,500	-5,128,113	-9,649,416
OPERATING PROFIT/LOSS	471,560	3,444,521	446,006	-5,079,763	-717,686
Financial income					301,178
Financial costs					-37,883
PROFIT/LOSS BEFORE TAXES					-454,391
Income tax					-22,001
PROFIT/LOSS FOR THE FINANCIAL PERIOD					-476,392
Segment assets	1,579,341	2,045,342	517,143	4,112,455	8,254,280

** Group-level costs consist mainly of Group R&D and Group administration costs.*

4 NET SALES, EUR

	2011	2010
Income from license sales	2,738,064	3,642,305
Income from maintenance	5,272,267	5,364,642
Other income	48,239	92,803
Total	8,058,572	9,099,750

5 OTHER OPERATING INCOME, EUR

	2011	2010
Rental income	0	42,292
Other	1,536	6,100
Total	1,536	48,392

6 OTHER OPERATING COSTS

Employee benefits, EUR	**2011**	2010
Wages and salaries	5,028,248	4,877,003
Pensions, defined-contribution plan	502,896	561,548
Other ancillary personnel costs	257,528	171,918
Stock options issued	12,532	13,576
Total	5,801,204	5,624,046

Personnel	**2011**	2010
Average during the financial period	61	68
At the end of the financial period	52	70

Personnel distribution by business area on 31 Dec	**2011**	2010
Sales, marketing and customer service	22	30
Research and development	24	27
Administration	8	13
Total	52	70

Research and development costs recognised as costs	**2011**	2010
Total	2,518,805	2,314,400

Other operating costs	**2011**	2010
Total	2,034,625	4,025,381

Auditor's fees

Auditor's fees by service category in 2011 were as follows:

- Audit: Group KPMG EUR 18,000 (18,000), Cheng EUR 6,341 (0), parent company EUR 18,000 (18,000).
- Tax counselling: Group EUR 38,596 (27,323), parent company EUR 10,553 (0).
- Other services: Group EUR 7,326 (3,670), parent company EUR 7,326 (3,670).

7 DEPRECIATIONS BY ASSET CATEGORY, EUR

	2011	2010
On machinery and equipment	33,243	68,167
On financial leasing assets	49,182	82,144
On other tangible assets	865	878
On software	182,093	11,874
On capitalised development costs	45,791	0
Total	311,175	163,062

Depreciations by function, EUR	**2011**	2010
Sales and marketing costs	179,623	36,496
R&D costs	49,001	17,891
Administrative costs	82,550	108,675
Total	311,175	163,062

Tectia recognised no impairments in 2010 or 2011.

8 FINANCIAL INCOME, EUR

	2011	2010
Interest revenue	48,178	12,556
Capital gains on held-to-maturity assets	0	55,707
Exchange rate gains, loans and other receivables	22,975	232,914
Total	71,154	301,178

9 FINANCIAL COSTS, EUR

	2011	2010
Interest costs on financial leasing, amortised liabilities	1,752	4,631
Changes in value, currency derivatives	70,210	0
Exchange rate losses, loans and other receivables	129,517	33,266
Other interest costs	6,337	14
Total	207,815	37,883

10 TAXES, EUR

	2011	2010
Deferred taxes	0	-730
Income tax	-21,234	-8,277
Other taxes	0	-13,724
Total	-21,234	-22,001

Comparison of taxes based on the valid tax rate in Finland with those recognised in the income statement:

	2011	2010
Profit/loss before taxes	-2,172,958	-447,554
Tax at 26%	564,969	117,988
Effect of foreign subsidiaries' differing tax rates	26,104	5,844
Expenses not deductible for tax purposes	2,836	-138,178
Tax-free revenue	-329,896	101,233
Use of previously unrecognised tax losses	37,445	122,678
Tax assets not recognised for reported losses	-269,361	-226,742
Impact of change in Finnish tax rate		0
Deferred taxes	0	730
Taxes from earlier financial periods	0	8,170
Other taxes	-1,123	-13,724
Tax in income statement	-21,234	-22,001

11 EARNINGS PER SHARE, EUR

	2011	2010
Profit/loss attributable to shareholders of the parent company	-2,104,332	-460,966
Weighted average number of shares in issue (1,000)	30,549	29,900
Earnings per share (undiluted) (EUR per share)	-0.07	-0.02
Adjusted average number of shares considering dilution effect (1,000)	30,563	29,922
Because the Group declared a loss in the 2010 and 2011 financial periods, the dilution effect of stock options is not considered.		
Earnings per share (diluted) (EUR per share)	-0.07	-0.02

12 TANGIBLE ASSETS

Machinery and equipment, EUR	**2011**	2010
Acquisition cost as at 1 Jan	1,237,065	1,255,557
Translation difference	11,494	1,098
Increase	54,573	68,885
Decrease		-88,475
Acquisition cost as at 31 Dec	1,303,132	1,237,065
Accumulated depreciation as at 1 Jan	1,132,962	1,136,655
Translation difference	10,856	11,000
Depreciation for the financial period	38,029	-68,166
Translation difference on depreciation for the financial period	0	3,988
Accumulated depreciation on decrease	0	49,485
Accumulated depreciation as at 31 Dec	1,181,847	1,132,962
Book value as at 31 Dec	121,286	104,103

Leased assets based on finance leasing agreements, EUR	**2011**	2010
Acquisition cost as at 1 Jan	438,451	405,549
Increase	7,695	32,902
Decrease	-49,581	
Acquisition cost as at 31 Dec	396,566	438,451
Accumulated depreciation as at 1 Jan	377,512	294,811
Depreciation for the financial period	-1,031	82,701
Accumulated depreciation as at 31 Dec	376,484	377,512
Book value as at 31 Dec	20,081	60,939
Book value of machinery and equipment, total as at 31 Dec, EUR	141,367	165,042

Other tangible assets, EUR	**2011**	2010
Acquisition cost as at 1 Jan	7,954	21,133
Translation difference	-3,462	0
Decrease	0	-13,179
Acquisition cost as at 31 Dec	4,492	7,954
Accumulated depreciation as at 1 Jan	6,424	18,511
Translation difference	-3,954	214
Depreciation for the financial period	932	878
Accumulated depreciation on decrease	0	-13,179
Accumulated depreciation as at 31 Dec	3,402	6,424
Book value as at 31 Dec	1,090	1,957
Balance sheet value of tangible assets as at 31 Dec, EUR	142,457	166,999

13 INTANGIBLE ASSETS

Software, EUR	**2011**	2010
Acquisition cost as at 1 Jan	1,860,836	1,836,287
Translation difference	67,515	945
Increase	6,914	23,604
Acquisition cost as at 31 Dec	1,935,265	1,860,836
Accumulated depreciation as at 1 Jan	1,817,324	1,805,798
Translation difference	64,264	-945
Depreciation for the financial period	14,563	11,874
Translation difference on depreciation for the financial period	0	597
Accumulated depreciation as at 31 Dec	1,896,151	1,817,324
Book value as at 31 Dec	39,114	43,512

Immaterial rights, EUR	**2011**	2010
Acquisition cost as at 1 Jan	797,469	0
Increase*	679,579	797,469
Acquisition cost as at 31 Dec	1,477,048	797,469
Accumulated depreciation as at 1 Jan	0	0
Depreciation for the financial period	213,461	0
Accumulated depreciation as at 31 Dec	213,461	0
Book value as at 31 Dec	1,263,587	797,469
Balance sheet value of intangible assets as at 31 Dec, EUR	1,302,701	840,981

** The increase for 2010 comes exclusively from the Siltanet transfer of business.*
The increase for 2011 comes from capitalisation of R&D costs.

ACQUIRED BUSINESS FUNCTIONS

No new business combinations were conducted during the 2011 financial period.

On 15 December 2010, Tectia corporation acquired the mobile authentication business of Siltanet Oy Corporation and all related technology rights. This business transaction strengthened Tectia's position on the mobile security market. Siltanet Oy was formerly a technology partner of Tectia, and ownership of this technology is considered important for the future and strategy of Tectia corporation. Mobile authentication is a rapidly growing business, as demand for strong two-factor authentication is growing. The Tectia Mobile ID product has also the potential to replace physical tokens, being a cost-effective and easy solution to deploy and use across an entire enterprise.

The purchase price was paid by a directed share issue and cash. The cash portion of the transaction involved purchasing a mobile authentication technology patent held by Siltanet Oy. The directed share issue consisted of 647,059 shares. Tectia corporation also assumed responsibility for the capital loans granted by TEKES to Siltanet Oy for development of the mobile authentication technology and related business, totalling EUR 112,468. Siltanet Oy is entitled to a further tranche of 100,000 shares if the business growth conditions specified in the transaction are fulfilled.

The acquired business would have generated net sales of about EUR 90,000 in the 2010 financial year if the business combination had been carried out at the beginning of the financial period. However, even if the business combination had been carried out at the beginning of the financial period, it would not have had a significant effect on the financial performance of the Group as a whole in the 2010 financial period. About EUR 10,000 in costs related to this transaction was recognised in 2010.

The immaterial rights acquired in the transaction will be depreciated over a period of 5 years.

The Siltanet acquisition	**2010**
Purchase price (EUR):	
Cash	50,000
Directed share issue	550,000
Capital loans	112,468
Conditional instalment	85,000
Total	797,469
Acquired assets:	
technology patents	50,000
customer register	298,720
technology	448,748
Total	797,469
Total purchase price	797,469
Goodwill	0

14 DEFERRED TAX RECEIVABLES AND LIABILITIES, EUR

Finland's corporate tax rate will change to 24.5% as of 1 January 2012 (26% until 31 December

	1 Jan 2010	Recognised in income statement	Recognised under equity	31 Dec 2010
Deferred tax liabilities				
Finance leasing	1,083	0	730	730
Total	0	0	0	0

	1 Jan 2011	Recognised in income statement	Recognised under equity	31 Dec 2011
Deferred tax liabilities				
Finance leasing	730	0	-730	0
Total	730	0	-730	0

Confirmed losses from earlier years that are not recognised as deferred tax assets by the Group amount to EUR 20.6 million (21.0 million). Of these, EUR 13.6 million (15 million) is in Finland and EUR 7.0 million (6.0 million) in the USA. The Finnish confirmed losses will expire between 2012 and 2018, and the US confirmed losses will expire between 2020 and 2029. Unrecognised deferred tax assets from taxable losses amount to EUR 6.4 million (6.5 million).

The Group subsidiaries have no retained earnings the repatriation of which would result in tax liabilities.

15 ACCOUNTS RECEIVABLE, EUR

	2011	2010
	2,090,774	2,804,244

Accounts receivable by age, EUR	**2011**	**Impairment losses**	**Net value 2011**
Non-matured	1,630,879	0	1,630,879
Matured			
< 30 days	369,456	0	369,456
30–60 days	8,896	0	8,896
> 60 days	81,544	0	81,544
Total	2,090,774	0	2,090,774

Accounts receivable by age, EUR	**2010**	**Impairment losses**	**Net value 2010**
Non-matured	1,998,132	0	1,998,132
Matured			
< 30 days	498,992	0	498,992
30–60 days	91,837	0	91,837
> 60 days	215,282	0	215,282
Total	2,804,244	0	2,804,244

Accounts receivable by currency, EUR	**2011**	2010
EUR	396,823	610,781
USD	1,406,093	1,787,726
HKD	3,404	8,781
GBP	403	120,810
CHF	284,051	276,146
Total	2,090,774	2,804,244

16 OTHER RECEIVABLES, EUR

	2011	2010
Advances paid	201,645	274,432
VAT receivables	114,326	102,910
Other current receivables	16,586	62,235
Total	332,557	439,577

17 PREPAID EXPENSES AND ACCRUED INCOME, EUR

	2011	2010
Personnel-related	0	3,915
Other prepaid expenses and accrued income	59,826	39,136
Total	59,826	43,051

18 INVESTMENTS HELD TO MATURITY, EUR

	2011	2010
Book value as at 1 Jan	2,452,744	2,520,100
Increase	0	824,168
Decrease	- 2,452,744	891,524
Change, total	-2,452,744	-67,356
Book value as at 31 Dec	0	2,452,744
Short-term	0	2,452,744

Gains and losses on fixed-term deposits during the financial period are shown in notes 8 and 9.

19 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The table shows the book value for each financial assets and liabilities item; this is essentially similar to their fair value

	Note	**2011**	2010
Financial assets			
Other financial assets		2,414,681	1,495,684
Investments held to maturity	19	0	2,452,744
Accounts receivable and other receivables	15,16	2,090,774	3,243,821
Currency derivatives			
Total		4,505,455	7,192,249
Financial liabilities			
Finance leasing liabilities	23	5,964	17,632
Accounts payable and other liabilities	25,27	510,079	501,171
		516,043	518,803

20 NOTES TO EQUITY

According to the Articles of Association, Tectia corporation has a minimum share capital of EUR 600,000 and a maximum share capital of EUR 2,400,000, within which limits the share capital may be raised or lowered without amending the Articles of Association. The nominal value of one share is EUR 0.03; hence, the minimum number of shares is 20 million and maximum number is 80 million. The company has one series of shares; each share entitles its holder to one vote at the shareholders' meeting. The share capital of the company, registered with the Trade Register and fully paid up as at 31 December 2011 was EUR 916,476.24 (31 Dec 2010: EUR 916,446.24), and the number of shares was 30,549,208 (30,548,208).

CHANGES IN THE SHARE CAPITAL:

	Number of shares	**Share capital**	**Total**
31 Dec 2010	**30,548,208**	**916,446**	**916,446**
Subscriptions under stock option plan I/1999	1,000	30	
31 Dec 2011	**30,549,208**	**916,476**	**916,476**

DESCRIPTION OF THE EQUITY RESERVES:

Translation differences

The translation differences fund comprise the exchange rate differences arising from the translation of the financial statements of the foreign subsidiaries.

Fair value and other reserves

The item 'Fair value and other reserves' consists of three different funds: a fair value reserve for available-for-sale investments, a hedging reserve for changes in the fair value of cash flow hedging instruments, and a reserve for the costs of granted stock option rights. In the 2010 and 2011 financial periods, Tectia had no saleable financial assets and did not apply hedging.

Unrestricted invested equity fund

The unrestricted equity fund consists of the dissolved share premium fund formed by share subscriptions under option rights and includes share subscription prices insofar as not registered as share capital.

Fund for own shares

The fund for own shares comprises the purchase cost of own shares eliminated in the group consolidation of SSH Management Investment Oy, the holding company of the Group management.

Other equity fund

The item 'Other equity fund' is the conditional purchase price liability for the Siltanet acquisition.

21 CAPITAL MANAGEMENT

The objective in managing Group capital is to secure the ability to continue operating. The structure of the capital can be managed for instance through decisions concerning dividends and other distribution of assets, purchase of the company's own shares and share issues. Capital management concerns equity recognised in the balance sheet. There are no requirements imposed by outside parties on the Group's capital management.

The indicators depicting the capital structure are the equity ratio and gearing.

Gearing

EUR	**2011**	2010
Interest-bearing financial liabilities	135,658	60,852
Interest-bearing receivables	0	2,452,744
Cash and cash equivalents	2,414,681	1,495,684
Net liabilities	-2,279,023	-3,887,576
Equity total	1,078,770	3,187,281
Equity ratio	36.2	69.1
Gearing	-230.0	-121.0

22 SHARE-BASED PAYMENTS

Tectia share-based payments consist of the following option plans:

Option plan	Option certificate	Release date	Subscription period Begin	Subscription period End	Subscription price, EUR	Options not exercised
I/1999	I/1999E	05 Aug 1999	01 May 2002	01 May 2012	0.03	4,962
	I/1999F	05 Aug 1999	01 Nov 2002	01 Nov 2012	0.03	3,062
	I/1999G	05 Aug 1999	01 May 2003	01 May 2013	0.03	3,601
	I/1999H	05 Aug 1999	01 Nov 2003	01 Nov 2013	0.03	2,600
						14,225
I/2000	I/2000C	22 Mar 2001	01 May 2002	01 May 2012	5.46	39,651
						39,651
II/2000	II/2000B	22 Mar 2001	01 May 2002	01 May 2012	13.96	1,625
	II/2000C	22 Mar 2001	01 Nov 2002	01 Nov 2012	13.96	875
	II/2000D	22 Mar 2001	01 May 2003	01 May 2013	13.96	875
	II/2000E	22 Mar 2001	01 Nov 2003	01 Nov 2013	13.96	875
	II/2000F	22 Mar 2001	01 May 2004	01 May 2014	13.96	875
	II/2000G	22 Mar 2001	01 Nov 2004	01 Nov 2014	13.96	875
						6,000
II/2002	II/2002A	11 Apr 2002	06 Jun 2002	11 Apr 2012	0.96	1,000
	II/2002B	11 Apr 2002	06 May 2003	11 Apr 2012	0.96	1,000
	II/2002C	11 Apr 2002	06 May 2004	11 Apr 2012	0.96	1,000
	II/2002D	11 Apr 2002	06 May 2005	11 Apr 2012	0.96	1,000
						4,000
III/2002	III/2002A	26 Jun 2002	06 May 2004	26 Jun 2012	0.86	499
	III/2002B	26 Jun 2002	06 May 2005	26 Jun 2012	0.86	500
	III/2002C	26 Jun 2002	06 May 2006	26 Jun 2012	0.86	500
	III/2002D	26 Jun 2002	06 May 2007	26 Jun 2012	0.86	500
						1,999

On the balance sheet date, Tectia had 65,875 stock options outstanding (2010: 240,039), representing 0.2% of shares and 0.2% of votes. The weighted average exercise price of outstanding stock options was EUR 4.65 (2010: 0.65). The weighted average of the remaining subscription period was 0.6 years (2010: 1.1). The exercise price varies from EUR 0.03 to EUR 14.01, and the remaining subscription period from 4 months to 2.8 years.

Changes in outstanding stock options and in weighted average subscription price:

	2011 Weighted average exercise price, EUR	2011 Number of stock options	2010 Weighted average exercise price, EUR	2010 Number of stock options
At the beginning of the financial period	0.65	230,615	4.80	240,439
Stock options granted	0	0	0	0
Stock options forfeited	0	0	0.03	0
Stock options cancelled	0.03	163,740	0.03	7,124
Stock options exercised	0.03	1,000	0.03	2,700
At the end of the financial period	4.65	65,875	0.65	230,615
Exercisable option rights at the end of the financial period	4.65	65,875	0.65	230,615

The weighted average price of Tectia shares in 2011 was EUR 0.51 (0.91).

23 FINANCIAL LIABILITIES

Finance leasing liabilities – minimum lease payments, EUR	2011	2010
Within one year	15,858	49,614
Within more than one year but no more than 5 years	6,841	20,240
Total	22,699	69,855

Finance leasing liabilities – current value of minimum lease payments, EUR	2011	2010
Within one year	13,826	43,220
Within more than one year but no more than 5 years	5,964	17,632
Total	19,790	60,852
Future financing costs	2,652	7,110

Total finance leasing liabilities, EUR	2011	2010
Current	13,826	43,220
Non-current	5,964	17,632

Other non-current liabilities		
TEKES loan	115,687	

The Group has leased office and IT equipment under long-term agreements. The lease agreements for IT equipment contain renewal options and purchase options at market price. The other lease agreements do not contain renewal or purchase options. All rents are at a fixed rate. The duration of the agreements is usually 3–5 years, and the liabilities as at 31 December 2011 will fall due by 31 August 2014.

In the 2010 financial period, the Group took over EUR 107,304 in TEKES equity loans in the transfer of business from Siltanet Oy.

24 ADVANCES RECEIVED, EUR

2011	2010
3,373,604	3,634,385

25 ACCOUNTS PAYABLE, EUR

2011	2010
496,253	213,044

26 ACCRUED LIABILITIES AND DEFERRED INCOME, EUR

	2011	2010
Personnel-related	599,546	691,138
Tax liabilities	32,084	16,402
Restructuring provisions	352,097	0
Other accrued liabilities and deferred income	8,435	166,264
Deferred rental expense benefit	61,873	82,498
Total	1,054,035	956,301

27 OTHER LIABILITIES, EUR

	2011	2010
Personnel-related	70,403	98,665
Finance leasing liabilities	13,826	43,220
VAT liabilities	0	5,245
Other current liabilities	148,919	97,777
Total	233,149	244,907

28 FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risks in its normal business. The purpose of the Group's risk management is to minimize negative impacts of changes on financial markets to Group income.

FOREIGN EXCHANGE RISK

The Group operates internationally and is exposed to foreign exchange risk, the most significant currency being USD. Transaction risks are managed based on the net position using, when required, forward contracts or options. During the period under review, the Group took action to hedge against exchange rate fluctuations against USD. At the moment, the Group is not using hedging accounting. Any gains or losses realised through hedging actions are thus recognised in profit/loss.

INTEREST RATE RISKS

The Group has no interest-bearing debt from financial institutions and therefore no need for debt protection. The Group's money market investments expose its cash flow to interest-rate risks, but the exposure is not significant as a whole.

MARKET RISK RELATED TO INVESTMENTS

The Group's cash reserves have been invested in accordance with the policy approved by the Board of Directors. At the end of the financial reporting period, almost all the assets are invested in fixed income funds and cash in financial institutions with high credit ratings.

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

The Group has no liquidity risks, since invested funds which are substantial compared to the Group's cash flows are available on a one-day notice.

29 OTHER RENTAL AGREEMENTS

The item 'Other rental agreements' includes lease agreements not classified as finance leasing agreements.

The Group as lessee

Non-terminable rental agreements for office facilities – minimum rents, EUR	2011	2010
Within one year	329,595	329,152
Within more than one year but no more than 5 years	347,245	701,545
Total	677,020	1,030,697

Non-terminable rental agreements for IT services – minimum rents, EUR	2011	2010
Within one year	97,035	86,660
Within more than one year but no more than 5 years	50,979	110,207
Total	148,014	196,867

Non-terminable rental agreements for vehicles – minimum rents, EUR	2011	2010
Within one year	32,006	58,239
Within more than one year but no more than 5 years	21,170	13,635
Total	53,176	71,874

The Group rents the office facilities it uses. The duration of the rental agreements is usually 3 to 5 years, and normally the agreements include options to renew past the original termination date. The index, renewal and other terms and conditions differ from agreement to agreement. The income statement for 2011 includes rents based on rental agreements totalling EUR 337,224 (405,396). The Group sub-let part of its office facilities in the 2010 financial period. The rental income from sub-letting in 2010 was EUR 42,250. The Group does not currently have sub-letting agreements.

In keeping with the Group's IT policy, the Group rents out network connections, virtual machines, hard-drive capacity, software, and support and maintenance services.

The Group also rents out vehicles. Rents are at fixed rates, and the agreement period generally 3 to 4 years. The income statement for 2011 includes vehicle leasing costs totalling EUR 76,236 (80,096).

30 GUARANTEES GIVEN AND OTHER COMMITMENTS, EUR

	2011	2010
Rental guarantees (pledged)	86,619	86,091

31 GROUP COMPANIES AND RELATED PARTY TRANSACTIONS

Group companies	Domicile	Group holding, %	Votes, %
Tectia corporation, Helsinki	Finland		
Tectia Inc., Redwood City	USA	100	100
Tectia Operations Oy, Helsinki	Finland	100	100
Tectia Ltd, Hong Kong	Hong Kong	100	100
SSH Management Investment Oy*, Helsinki	Finland	0	100
Tectia Solutions Oy, Helsinki**	Finland	100	100
Tectia Licensing S.A R.L.**	Luxembourg	100	100

** Tectia corporation holds a controlling interest in the company pursuant to the shareholders' agreement.*
*** Founded in 2011.*

Salaries and fees paid to management and members of the Board of Directors, EUR	2011	2010
CEO/Jari Mielonen (until 26 Sep 2011)	162,990	217,416
-Severance benefits upon dismissal	250,000	
CEO/Tatu Ylönen (as of 26 Sep 2011)	0	0
Board/Juhani Harvela	24,000	20,000
Board/Pyry Lautsuo	25,800	23,700
Chairman of the Board/Juho Lipsanen	48,000	42,800
Board/Juha Mikkonen (until 3 Mar 2011)	6,000	22,800
Board/Tiia Tuovinen	27,000	21,500
Board/Tomi Laamanen	0	2,800
Board/Tatu Ylönen	0	0

Share and stock option holdings of Board members	31 Dec 2011 Shares	31 Dec 2011 Stock options	31 Dec 2010 Shares	31 Dec 2010 Stock options
Pyry Lautsuo	12,500	0	12,500	0
Juho Lipsanen	21,865	0	21,865	0
Juha Mikkonen (until 3 Mar 2011)		0	4,003,000	0
Tatu Ylönen (CEO)	13,919,048	0	13,886,635	0
Total	13,953,413	0	17,924,000	0

Share and stock option holdings of the management group	31 Dec 2011 Shares	31 Dec 2011 Stock options	31 Dec 2010 Shares	31 Dec 2010 Stock options
Jari Mielonen			531,138*	
Tero Harjula			225,653*	
Jouni Leinonen			225,653*	
Mikko Karvinen	225,653*		225,653*	0
Pekka Rauhala	245,653*	7,500	245,653*	22,500
Total	471,306	7,500	1,453,750	22,500

** Includes indirect ownership through SSH Management Investment Oy.*

The Tectia management group and former CEO are rewarded with Group shares through the management's holding company, SSH Management Investment Oy. The Group has no unusual pension arrangements in place for the CEO or other senior management.

The management holding company, SSH Management Investment Oy, owns 1,433,750 company shares. Of these, 1,100,000 shares were subscribed in a separate share issue directed at the holding company. Moreover, in December 2009 SSH Management Investment Oy acquired 337,500 company shares on the open market. The acquisition of SSH shares was financed with a capital investment of EUR 266,640 made by the Group management group and a loan of EUR 792,000 granted by the parent company of the Group. The shares will be held by the management investment company until it is dissolved. The holding company will be held in place as part of the incentive plan until autumn 2013, at which time the holding company is planned to be dissolved in a manner to be determined later. The interest rate on the loan granted by the parent company is the 12-month Euribor rate plus a margin of 0.65 percentage points. Interest is paid in case of dividend, otherwise interest is capitalised annually. The loan will be repaid by the date when the holding company is dissolved at the latest. The capital may be repaid in whole or in part at an earlier date. A repayment of EUR 72,000 on the loan was made after the capital return in March 2010. Tectia corporation may call in the loan prematurely if SSH Management Investment Oy violates the terms of the loan agreement. The shares in the parent company held by the holding company form the security for the loan pursuant to the loan agreement. The AGM of Tectia corporation on 3 March 2010 decided to authorise the Board of Directors to accept the company's own shares pledged as security.

As at 31 December 2011, the CEO and members of the Board of Directors of Tectia owned 45.7% (63.9%) of the shares and votes in Tectia, either directly or indirectly through companies they own. The Board members and CEO have no option rights.

Management group members apart from the CEO directly or indirectly held about 1.5% (3.0%) of company shares and have 7,500 (22,500) option rights between them.

Salaries and fees paid to the management are also discussed in the annual report (p. 5).

RELATED PARTY TRANSACTIONS

Clausal Computing Oy, a company wholly owned by Tatu Ylönen, CEO of Tectia corporation, supplied Tectia corporation with R&D services worth EUR 0.1 million in the course of the year 2011. There were no other essential related party transactions during the period under review.

32 EVENTS AFTER THE BALANCE SHEET DATE

A significant financial institution in the UK increased its investment in SSH technology by ordering software licenses and maintenance services for EUR 0.9 million in all. The software and licenses under this order will be delivered and recognised as income in the first quarter of 2012, and the maintenance sales will be recognised during the 2012 financial period.

The company management does not know of any other essential events after the balance sheet date that would have affected the financial situation of the company.

Parent company financial statement

PARENT COMPANY INCOME STATEMENT

INCOME STATEMENT

EUR	Note	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
NET SALES	1	**4,094,453.36**	5,268,033.43
Purchasing and production costs		**139,771.60**	198,656.23
GROSS MARGIN		**3,954,681.76**	5,069,377.20
R&D costs	2, 6	**2,540,233.67**	2,961,109.61
Sales and marketing costs	2, 6	**2,326,962.41**	1,745,545.69
Administrative costs	2, 6	**1,587,410.80**	1,810,038.00
Other operating income	7	**-1,270,368.86**	483,104.02
OPERATING PROFIT/LOSS		**-1,229,556.25**	-1,674,271.63
Financial income and costs	8		
Interest revenue and other financing income		**72,996.66**	279 466,88
Interest costs and other financing costs		**118,171.09**	14 727,61
Financial income and costs, total		**-45,174.43**	264,739.27
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS		**-1,274,730.68**	-1,409,532.36
Extraordinary items			
Extraordinary income	9	**255,093.97**	0
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES		**-1,019,636.71**	-1,409,532.36
PROFIT/LOSS BEFORE TAXES		**-1,019,636.71**	-1,409,532.36
PROFIT/LOSS FOR THE FINANCIAL PERIOD		**-1,019,636.71**	-1,409,532.36

PARENT COMPANY BALANCE SHEET

BALANCE SHEET

EUR	Note	31 Dec 2011	31 Dec 2010
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	9		
Immaterial rights		**1,294,804.26**	833,087.56
Intangible assets, total		**1,294,804.26**	833,087.56
Tangible assets	9		
Machinery and equipment		**105,235.81**	84,616.45
Tangible assets, total		**106,235.81**	84,616.45
Investments			
Shares in Group companies	9	**104,309.18**	100,841.75
Other shares		**11,000.00**	11,000.00
Investments total		**115,309.18**	111,841.75
NON-CURRENT ASSETS,TOTAL		**1,515,349.25**	1,029,545.76
Non-current receivables			
Receivables from Group companies	10	**720,000.00**	769,538.32
Non-current receivables, total		**720,000.00**	769,538.32
Current receivables			
Accounts receivable		**102,027.09**	300,841.98
Receivables from Group companies	10	**110,197.17**	170,645.42
Prepaid expenses and accrued income	11	**29,401.98**	11,495.64
Other receivables	12	**101,312.31**	244,183.12
Current receivables, total		**342,938.55**	727,166.16
Financial instruments			
Other securities	13	**0.00**	1,752,744.34
Cash in hand and bank deposits		**1,992,241.76**	807,479.61
CURRENT ASSETS, TOTAL		**3,055,180.31**	4,056,928.43
ASSETS, TOTAL		**4,570,529.56**	5,086,474.19

BALANCE SHEET

EUR	Note	31 Dec 2011	31 Dec 2010
EQUITY AND LIABILITIES			
EQUITY	14		
Share capital		**916,476.24**	916,446.24
Unrestricted invested equity fund		**6,072,472.35**	6,072,472.35
Retained profit/loss		**-3,015,994.69**	-1,606,462.33
Profit/loss for the financial period		**-1,019,636.71**	-1,409,532.36
EQUITY, TOTAL		**2,953,317.19**	3,972,923.90
APPROPRIATIONS			
Depreciation difference		**0.00**	4,166.66
LIABILITIES			
Current liabilities			
Advances received		**82,638.11**	126,482.06
Accounts payable		**431,082.82**	175,521.29
Accrued expenses and deferred income	15	**1,030,387.51**	706,232.30
Other liabilities	16	**73,103.93**	101,147.98
Current liabilities, total		**1,617,212.37**	1,109,383.63
LIABILITIES TOTAL		**1,617,212.37**	1,113,550.29
EQUITY AND LIABILITIES, TOTAL		**4,570,529.56**	5,086,474.19

PARENT COMPANY CASH FLOW STATEMENT

CASH FLOW STATEMENT

EUR	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Cash flow from business operations		
Sales revenue	**4,453,143.92**	5,414,753.52
Revenue from other business operations	**1,535.97**	48,350.68
Costs of business operations	**-5,547,342.59**	-6,960,285.73
Cash flow from business operations before financial items and taxes	**-1,092,662.70**	-1,497,181.53
Interest and payments on other financial costs of business operations	**-20,179.26**	-14,618.55
Interest and other financial revenue from business operations	**-37,753.30**	58,476.74
Cash flow from business operations	**-1,150,595.26**	1,453,323.34
Cash flow from investing activities		
Investments in tangible and intangible assets	**-733,562.62**	-198,055.94
Loans granted	**0.00**	-49,538.32
Repayment on loan receivables	**49,538.32**	72,000.00
Other investments	**-3,467.43**	0.00
Cash flow from investing activities	**-687,491.73**	-175,594.26
Cash flow from financing activities		
Current investments	**1,752,744.34**	767,355.96
Capital loan repayment	**1,050,000.00**	0.00
Share subscriptions	**30.00**	81.00
Group contribution received	**220,074.80**	0.00
Return of capital	**0.00**	-1,423,047.45
Cash flow from financing activities	**3,022,849.14**	-655,610.49
Change in liquid assets	**1,184,762.15**	-2,284,528.09
Liquid assets at beginning of financial period	**807,479.61**	3,092,007.70
Change in liquid assets	**1,184,762.15**	-2,284,528.09
Liquid assets at end of financial period	**1,992,241.76**	807,479.61

Notes to the parent company financial statements

ACCOUNTING PRINCIPLES

The financial statement of the parent company, Tectia corporation, is drawn up in accordance with the Finnish Accounting Standards. Figures are given to an accuracy of one cent (EUR 0.01). All items in the balance sheet are recognised at original acquisition cost. Information on financial risk management is presented in the consolidated financial statement.

Principles of revenue recognition

Revenue is principally recognised in net sales once delivery has occurred or services have been rendered, an agreement has been signed with the customer or the customer has submitted a written order, and it has been assured that the customer is solvent. Revenue from services rendered under maintenance agreements are amortised across the agreement period.

Apportioning of costs to functions

Costs are apportioned to functions according to the matching principle.

Rental and leasing agreements

The parent company has rental and leasing agreements principally concerning IT services, vehicles and other assets. Rents and leasing payments paid pursuant to these agreements are recognised as costs over the rental or leasing period under 'Other operating costs'. Assets leased under finance leasing agreements and liabilities derived from these are not recognised in the parent company balance sheet.

Income tax

The income tax in the income statement comprises direct taxes based on the taxable profit for the financial period and adjustments to taxes on previous financial periods. The parent company does not recognise deferred tax receivables or liabilities in its financial statement. The parent company has confirmed losses of EUR 13.6 million (14.2 million) that have not been recognised as deferred tax receivables.

FIXED ASSETS

Fixed assets are recognised in the balance sheet at acquisition cost less planned depreciation and any impairments. Planned depreciations are calculated on a straight-line basis according to the economic life of each asset category.

The asset categories and their depreciation periods are:

Machinery and equipment	5 years from month of acquisition
Computer hardware	3 years from month of acquisition
Immaterial rights	5 years from year of acquisition
R&D expenses	5 years from year of capitalisation
Other capitalised expenditure	5 years from year of capitalisation
Major renovations of rental premises	Length of the rental agreement, though no more than 7 years, from year of capitalisation

Accumulated depreciation difference, i.e. the difference between planned depreciation and depreciation deducted for taxation purposes, is recognised as a separate item under equity and liabilities in the balance sheet. In the consolidated financial statement, the depreciation difference less deferred tax liabilities is recognised under retained earnings under equity.

Research and product development costs

R&D costs are recognised as costs in the financial period in which they were occurred except for those product development costs which are capitalised once certain criteria have been met. Capitalised development expenses are depreciated systematically over their useful lives.

Financial securities

Financial securities include items such as investments in interest funds. They mainly comprise commercial papers and fixed-term deposits, measured at acquisition cost less any impairment.

Foreign currency transactions

Transactions denominated in foreign currencies are recognised at the exchange rate on the transaction date. Outstanding receivables and liabilities in foreign currencies are recognised using the exchange rates on the balance sheet date. Exchange rate gains and losses on actual business operations are considered sales adjustment items or adjustment items to materials and services. Exchange rate gains and losses on financing activities are recognised offset under income from and/or costs of financing activities.

Option rights

Employees of the parent company and its subsidiaries have been granted option rights. The option rights entitle their holders to subscribe shares in the parent company at a fixed subscription price specified in the terms of the option plan. No costs are recognised in the income statement or balance sheet regarding the granting of option rights. With regard to option plans which closed while the old Companies Act was still in effect (before 1 September 2006), when an employee exercises option rights under those plans, the payments received for the subscriptions are recognised as equity under the unrestricted equity fund.

Notes to the income statement

1 NET SALES BY MARKET AREA, EUR

	2011	2010
Finland	377,521	465,355
Rest of Europe	844,393	690,156
North America	1,894,281	3,384,984
Other	978,258	727,538
Total	4,094,453	5,268,033

2 OPERATING COSTS

Other operating costs	**2011**	2010
Total	1,396,496.56	3,046,436

AUDITOR'S FEES

- Auditor's fees by service category were as follows:
- Audit: EUR 18,000.00 (18,000.00)

Assignments referred to in section 1(1) paragraph 2 of the Auditing Act:

- Tax counselling: EUR 10,553.40 (0.00)
- Other services: EUR 7,326.50 (3,670.00)

3 PERSONNEL COSTS AND AVERAGE NUMBER OF EMPLOYEES

Personnel costs, EUR	**2011**	2010
Wages and salaries	3,119,733	3,134,827
Pension costs	504,979	554,949
Other ancillary personnel costs	164,564	55,787
Total	3,789,277	3,745,563

	2011	2010
Average number of employees	44	49

4 PERSONNEL DISTRIBUTION BY BUSINESS AREA AT THE END OF THE FINANCIAL PERIOD

	2011	2010
Research and development	24	27
Sales and marketing	6	11
Administration	5	11
Total	35	49

5 SALARIES AND FEES PAID TO MANAGEMENT AND MEMBERS OF THE BOARD OF DIRECTORS, EUR

See note 32 to the consolidated financial statement.

6 DEPRECIATION AND IMPAIRMENT, EUR

	2011	2010
On immaterial rights	180,239	10,627
On machinery and equipment	25,196	59,496
Total	251,226	70,123

No impairments were recognised in 2010 or 2011.

7 OTHER OPERATING INCOME AND COSTS

Other operating income for 2011 comprises an income item of EUR 1,536. Other operating costs for 2011 includes written-off bad debts from fully-owned subsidiaries to a total of EUR 1,268,833.

Other operating income for 2010 comprised rental income of EUR 48,351. Other operating costs for 2010 included written-off bad debts from fully-owned subsidiaries to a total of EUR 531,455.

8 FINANCING INCOME AND COSTS, EUR

	2011	2010
Interest revenue	18,425	17,965
Revenue from financial securities	42,770	49,749
Exchange rate gains and losses (net)	-102,804	197,040
Interest costs	-3,566	0
Total	-45,174	264,739

9 EXTRAORDINARY INCOME, EUR

	2011	2010
Group contribution, Tectia Operations Oy	255,093	0

Notes to the balance sheet

10 NON-CURRENT ASSETS AND OTHER LONG-TERM INVESTMENTS, EUR

Immaterial rights	**2011**	2010
Acquisition cost as at 1 Jan	2,713,422	1,900,197
Increase	687,747	813,225
Acquisition cost as at 31 Dec	3,401,169	2,713,422
Accumulated depreciation as at 1 Jan	1,880,334	1,869,708
Depreciation for the financial period	226,031	10,627
Accumulated depreciation as at 31 Dec	2,106,365	1,880,334
Book value as at 31 Dec	1,294,804	833,088
Machinery and equipment		
Acquisition cost as at 1 Jan	1,127,672	1,085,842
Increase	49,982	41,831
Acquisition cost as at 31 Dec	1,177,654	1,127,672
Accumulated depreciation as at 1 Jan	1,043,056	983,560
Depreciation for the financial period	29,363	59,496
Accumulated depreciation as at 31 Dec	1,072,419	1,043,056
Book value as at 31 Dec	105,236	84,616
Investments		
Book value as at 1 Jan	111,842	111,842
Increase	3,467	0
Book value as at 31 Dec	115,309	111,842

11 PARENT COMPANY RECEIVABLES FROM GROUP COMPANIES, EUR

	2011	2010
Accounts receivable	110,197	170,645
Loan receivables	720,000	769,538
Total	830,197	940,183

12 PREPAID EXPENSES AND ACCRUED INCOME, EUR

	2011	2010
Interest receivables	28,561	10,655
Personnel-related	841	841
Total	29,402	11,496

13 OTHER RECEIVABLES, EUR

	2011	2010
Advances paid	72,388	172,968
VAT receivables	28,812	4,706
Other current receivables	112	66,510
Total	101,312	244,183

14 OTHER SECURITIES, EUR

Financial securities	**2011**	2010
Book value as at 1 Jan	1,752,744	2,520,100
Net increase/decrease	-1,752,744	-767,356
Book value as at 31 Dec	0	1,752,744
Current	0	1,752,744

At the end of 2010, the held-to-maturity investments comprised fixed-term deposits.

15 EQUITY, EUR

	2011	2010
Share capital as at 1 Jan	916,446	896,953
Increase in share capital	30	19,493
Share capital as at 31 Dec	916,476	916,446
Unrestricted invested equity fund as at 1 Jan	6,072,472	7,036,806
Return of capital	0	-1,494,922
Subscription of shares	0	530,588
Unrestricted invested equity fund as at 31 Dec	6,072,472	6,072,472
Retained earnings	-3,015,994	-1,606,462
Profit/loss for the financial period	-1,019,637	-1,409,532
Equity total	2,953,317	3,972,924

Statement on distributable funds, EUR	**2011**	2010
Retained earnings	-3,015,994	-1,606,462
Profit/loss for the financial period	-1,019,637	-1,409,532
Unrestricted invested equity fund	6,072,472	6,072,472
Total	2,036,841	3,056,478

16 ACCRUED LIABILITIES AND DEFERRED INCOME, EUR

	2011	2010
Personnel-related	829,700	508,764
Other accrued liabilities and deferred income	200,687	197,468
Total	1,030,387	706,232

17 OTHER LIABILITIES, EUR

	2011	2010
Personnel-related	70,305	101,148
VAT liabilities	2,799	0
Total	73,104	101,148

18 OTHER COMMITMENTS, EUR

Non-terminable rental agreements for office facilities – future rent payment

	2011	2010
Within one year	202,654	185,620
Within more than one year but no more than 5 years	241,990	556,859
Total	444,644	742,478

The earliest possible termination date for the rental agreement on the office facilities is 30 June 2013.

Non-terminable rental agreements for IT services – future rent payments

IT services	**2011**	2010
Within one year	97,035	86,660
Within more than one year but no more than 5 years	50,979	110,207
Total	148,014	196,867

Non-terminable rental agreements for vehicles – future rent payments

	2011	2010
Within one year	32,006	46,828
Within more than one year but no more than 5 years	21,170	13,635
Total	53,177	60,463

Non-terminable rental agreements for other assets – future rent payments

	2011	2010
Within one year	13,826	43,220
Within more than one year but no more than 5 years	5,964	17,632
Total	19,790	60,852

Guarantees given

	2011	2010
Rental guarantees (pledged)	69,381	64,425

19 GROUP COMPANIES

Group companies	**Domicile**	**Group holding, %**	**Votes, %**
Tectia corporation, Helsinki	Finland		
Tectia Inc., Redwood City	USA	100	100
Tectia Operations Oy, Helsinki	Finland	100	100
Tectia Ltd, Hong Kong	Hong Kong	100	100
Tectia Licensing S.A R.L.	Luxembourg	100	100
SSH Management Investment Oy, Helsinki	Finland	0	100
Tectia Solutions Oy, Helsinki	Finland	100	100

Signatures to the board of directors report and financial statement

Helsinki, 14th February 2012

Juho Lipsanen
Chairman of the Board of Directors

Juhani Harvela

Pyry Lautsuo

Tiia Tuovinen

Tatu Ylönen
CEO

Auditor’s note

We have today issued an auditors’ report based on our audit.

Helsinki, 28th February 2012

KPMG Oy Ab

Kirsi Jantunen
APA

Auditor’s report

This document is an English translation of the Finnish auditor’s report. Only the Finnish version of the report is legally binding.

TO THE ANNUAL GENERAL MEETING OF TECTIA CORPORATION

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Tectia Corporation for the year ended December 31, 2011. The financial statements comprise the consolidated balance sheet, comprehensive income statement, statement of changes in equity and cash flow statement, and notes to the consolidated financial statements, as well as the parent company’s balance sheet, income statement, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company’s accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

AUDITOR’S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

OPINION ON THE COMPANY’S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company’s financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 28 February 2012
KPMG OY AB

KIRSI JANTUNEN
Authorized Public Accountant