Q2 2013

Interim Report 2/2013

January–June

Profitability improves despite a slow-growth IT services market

- Healthy order flow – significant contracts won in key industries
- Weak telecom sector and divestments result in revenue decline – small organic growth in the rest of the business
- Delivering on earlier announced cost savings, additional actions initiated in Consulting and System Integration

Key figures

- Organically, net sales were down by 3% in the second quarter – outside the telecom sector net sales were up by 1%
- Operating profit excl. one-off items rose by 9% to EUR 31.3 (28.6) million

EUR million	4-6/2013	4-6/2012	1-6/2013	1-6/2012
Net sales, EUR million	436.2	456.1	881.0	923.2
Change, %	-4	-1	-5	0
Organic change, %	-3	0	-2	1
Operating profit (EBITA), EUR million	16.3	-1.9	47.4	41.7
Operating margin (EBITA), %	3.7	-0.4	5.4	4.5
Operating profit (EBIT), EUR million	15.5	-3.3	45.6	38.8
Operating margin (EBIT), %	3.6	-0.7	5.2	4.2
Operating profit (EBIT) excl. one-off items[1)], EUR million	31.3	28.6	63.3	57.0
Operating margin (EBIT) excl. one-off items[1)], %	7.2	6.3	7.2	6.2
Profit after taxes, EUR million	7.4	-6.8	28.8	25.2
EPS, EUR	0.10	-0.10	0.40	0.35
Net cash flow from operations, EUR million	10.0	-3.8	51.2	65.0
Return on equity, 12-month rolling, %	6.6	11.7	6.6	11.7
Return on capital employed, 12-month rolling, %	13.9	18.2	13.9	18.2
Investments, EUR million	15.3	13.6	32.6	28.0
Interest-bearing net debt, EUR million	71.5	80.0	71.5	80.0
Net debt/EBITDA	0.4	0.5	0.4	0.5
Book-to-bill	1.2	1.2	1.0	1.1
Order backlog	1 584	1 769	1 584	1 769
Personnel on 30 June	15 447	17 723	15 447	17 723

Full-year outlook for 2013 unchanged

Tieto expects its organic net sales to develop in line with the growth in the market for IT services, with the exception of the weaker outlook in the telecom sector.

Tieto expects its profitability to continue to improve and full-year operating profit (EBIT) excluding one-off items to increase from the previous year's level (EUR 138.8 million in 2012).

[1)] Excl. capital gains, impairments and restructuring costs

CEO's comment

Comment regarding the interim report by Kimmo Alkio, President and CEO:
"Despite the challenging macroeconomic environment, we are pleased to have delivered a 9% improvement in underlying profit and won a number of significant contracts during the second quarter.

Tieto is in a good position to support both large enterprises and the public sector in achieving their rapidly changing business needs. We are actively contributing to our customers' success by applying new technologies such as cloud services which have now delivered double-digit growth through engagements concluded this year.

During the quarter, we completed our divestment in Germany and the Netherlands, driving a more focused and simplified company as defined in our strategy. In IT services, our focus is on the Nordic region to support our customers' business transformations, while Product Development Services pursues global customer expansion in accordance with its renewed strategy.

In addition to innovation, price competitiveness continues to be a high priority. Streamlining of the company has proceeded as planned and improved Tieto's cost position. However, efficiency improvements will remain on our agenda to ensure competitiveness and profitability."

Market development

The Nordic IT services market continues to experience a healthy level of interest in IT development projects, but decision-making cycles have remained long. The market for projects to transform ICT infrastructure into more standardized cloud solutions is active and there are ample longer-term opportunities for transformation into new scalable and flexible IT environments, which provide both business benefits and cost savings. The focus is currently also on mobility, business intelligence and enterprise content management as well as new "as a service" delivery models. Customers' continuing cost-savings agendas drive the transformation of business systems and the renewal of old legacy systems. As a result, the outsourcing market has remained active. Areas like mobility and cloud services are expected to see double-digit growth rates while the market for traditional IT services is likely to decline.

As a result of the weak macroeconomic outlook, customers are using their IT budgets prudently. Additionally, competition has intensified during 2013 and some vendors are actively seeking to strengthen their market position with relatively aggressive pricing. As the IT services market has remained stagnant during the first half of the year, expectations for the full-year market growth have somewhat weakened. Currently, Tieto expects the Nordic IT services market to grow by 0–2% in 2013, with IT outsourcing as the main source of growth (prior expectation: 2%).

Tieto is able to provide the full stack of integration and operations management services complemented with its own products. As a result of this total service offering coupled with strong offshore capability and continued improvements in cost structure, the company is highly competitive in its target markets.

Pockets of growth

- Mobility is a core driver of the IT landscape as it changes the way enterprises interact with customers, partners and suppliers, and empower their workforce with access to information and services. The growth trend is expected to further accelerate, as mobility is gradually becoming an integrated component in traditional IT projects. Tieto is continuing to execute its Enterprise Mobility Solution Framework, combining the company's capabilities, solutions and partnerships to deliver a full service life cycle and best-of-breed technology stack. During the second quarter, Tieto signed a strategic partnership agreement with Samsung, combining the companies' offerings to serve the Nordic enterprise market. Tieto closed new consulting assignments with clients such a major retail company and a larger municipality.
- Cloud: Customers are increasingly transferring their operations into scalable and flexible cloud environments, where capacity provisioning takes only a few minutes while it previously took several days. Due to the increased efficiency resulting from a higher level of automation, the profitability of cloud services is higher than that of traditional services, which are now being cannibalized. Tieto has responded to this transformation path by launching a new cloud services portfolio in 2012 and has several ongoing automation projects to enable cloud-based ecosystems. Based on the agreements Tieto had concluded by the end of June, around 10% of the existing server capacity will be transferred to a cloud environment and the company expects that share to increase to around 20% during 2013.
- Big data is expected to be one of the fastest growing areas of IT services in the longer term. It is utilized to store and analyze massive amounts of data, such as information on customer behaviour or a large quantity of sensor measurements, making it possible to develop applications to solve new kinds of complex business problems. Big data currently represents around 1% of the IT services market and the share is expected to grow to around 5% by 2016. Tieto has a full stack offering portfolio for big data services including Tieto Fast Track to Big Data and Tieto

Big Data PaaS (Platform as a Service). Tieto also runs a programme to further develop new services, including industry-specific big data solutions. In order to develop service packaging for big data, Tieto is leading the Data-to-Intelligence programme launched by TIVIT, the Strategic Centre for Science, Technology and Innovation in the Field of ICT in Finland. The programme involves public and private participation to develop new data-intensive services improving productivity.
- Social features are standard in most digital consumer services, and are increasingly being integrated in work environments as well. As a result, organizations are able to rapidly gather new information, insights and intelligence from the external environment, making them more responsive and adaptive to change. Unified Communications and Collaboration (UCC) continues to be a growth area for Tieto. In 2013, Tieto rounded out its existing service offering with Google Apps, a public cloud-based productivity suite, as an addition to equivalent technologies from Microsoft and IBM. Demand has increased especially in Enterprise Voice and support for UCC on a private cloud hosted by Tieto (Tieto Productivity Cloud).

Industry sector drivers

Additionally, industry-specific drivers affect the IT service market:

- In the **finance** sector, cost pressure and regulatory changes drive IT transformation programmes and the market is active, especially in outsourcing. Customer investments are primarily focused on front-end services for consumers, mobility and business intelligence. Customers also demand great efficiency in back office and IT operations management.

- In the **public** sector, reduced central government spending and prolonged decision-making has impacted the IT services market in Finland, whereas in Sweden, the operations management and outsourcing market is growing.

- In the **healthcare** sector, the activity level has remained good in Finland and Sweden, also due to national programmes. There is also a healthy demand for eServices and mobile solutions in the sector.

- In the **manufacturing** sector, the demand for IT services has become somewhat weaker and cost savings comprise an important driver for initiating new IT projects.

- In the **energy** utilities sector, the market for smart metering solutions and cloud-based offerings has remained good. However, some companies are pushing back investments due to regulatory uncertainties.

- The **oil & gas** market is very active and new hydrocarbon sources enhance sales opportunities for Tieto’s products.

- The drop in both ad- and subscription-based revenue in the **media** sector has had a negative impact on IT investments.

- In the **telecom** sector, customers’ initiatives to improve efficiency open up new transformation opportunities and increase interest in cloud-based services. However, cost pressure has resulted in tight price competition.

- In the **telecom product development market**, the demand for new technologies to handle the traffic from a growing number of connected devices will continue to increase, as will the appetite for a diverse range of end-user devices. However, the fierce competition and telecom operators’ reduced spending have resulted in a decline in telecom R&D spending in the short term.

Company strategy

On 1 January 2013, Tieto’s new operating model took effect and the new Leadership Team became fully operational. By strengthening its industry-driven structure and service offerings as well as the transparency of its business practices, the company is well positioned to increase its profitability and drive long-term growth.

The company’s key targets include geographical focus and improved profitability. The company implemented several divestments in 2012, reducing 2013 sales by around EUR 35 million. Additionally, Tieto closed the divestment of its local German and Dutch operations in June. First-half sales of these businesses amounted to EUR 45 million, and in 2012, the second-half sales amounted to EUR 53 million. Tieto will continue to monitor its businesses with the long-term target of increasing scalability and efficiency within the company.

The IT market is seeing pockets of growth and Tieto has continued to invest in offerings for areas like enterprise mobility, cloud transformation and big data. The Tieto Cloud Server launches in Finland and Sweden have been successful and resulted in a healthy deal flow. As a full IT services partner, Tieto integrates cloud services into its customers' existing IT systems and business processes. During the quarter, Tieto also complemented its existing service offering with Google Apps, a public cloud-based productivity suite. The cooperation complements Tieto's existing services in the office productivity and collaboration area to drive mobile ways of working and efficiency.

Another development focus has been on Consulting and System Integration (CSI) practices such as enterprise content management, transformation consulting and enterprise mobility. However, both the softness of the IT market and some internal inefficiency call for additional measures. The company is carrying out additional initiatives to strengthen key competences such as project and programme management and transformation capabilities. Tieto is actively pursuing a programme to standardize its service offerings in line with today's market needs.

Product Development Services (PDS) launched its new strategy as well as renewed its operating structure and leadership team during the quarter in order to drive the focus on the full product life cycle of the product development process in communications and embedded technologies. According to its strategy, PDS seeks to expand its global customer base and improve profitability through repeatable, high-quality service offerings.

Streamlining of the company

Tieto launched a programme to create a competitive cost structure in March 2012. Since the launch, Tieto has reduced a total of 1 600 positions and this programme has now been concluded, with a positive impact of around EUR 30 million on the company's operating profit in the first half. The comparison figure for the first-half operating profit in 2012 included a positive effect of around EUR 3 million.

The company anticipates that the positive impact of the programme on operating profit will amount to some EUR 60 million in 2013. However, the comparison figure for the full year 2012 included a positive effect of EUR 25 million. The full savings of over EUR 60 million are expected to materialize in 2014.

In 2013, streamlining actions will be driven by the service lines and industry groups in line with the market demand and profitability objectives. To further improve the efficiency of operations and cost structure, streamlining is a continuous process. In May, Tieto started personnel negotiations in the CSI service line to improve efficiency as well as to focus on more standardized and repeatable services and growing business practices. The process started in Finland with negotiations to reduce up to 180 positions. In other countries, possible reductions are estimated to amount to up to 120 positions during 2013. Personnel negotiations leading to possible reductions are part of the ongoing transformation of CSI.

Restructuring costs in 2013 are expected to be around half of the previous year's level. In 2012, the company booked EUR 57 million in restructuring costs. In the first half of 2013, Tieto booked EUR 9.6 (33.1) million in restructuring costs, including provisions for job cuts to be implemented in the second half. These costs are mainly related to the personnel negotiations in the CSI service line. Additionally, Tieto has booked impairment loss of EUR 8.0 million related to the divestment of its local German and Dutch businesses in the second-quarter results.

Financial performance in April–June

Second-quarter net sales were down by 4% and amounted to EUR 436.2 (456.1) million. The divestments had a negative impact of EUR 8 million. Organically, net sales declined by 3%. This was driven mainly by the 12% drop in the telecom sector. Outside the telecom sector, Tieto's organic growth was 1%. Overall, sales development reflects cautiousness in starting new projects and lower prices in contract renewals. The weak development in the telecom sector was reflected as a sales decline in Consulting and System Integration. Currency fluctuations had a positive impact of EUR 6 million on sales.

Second-quarter operating profit (EBIT) amounted to EUR 15.5 (-3.3) million, representing a margin of 3.6% (-0.7). Operating profit includes restructuring costs of EUR 7.7 million, mainly in the CSI service line. Additionally, Tieto booked impairment loss of EUR 8.0 million related to the divestment in Germany and the Netherlands which affected operating profit mainly in the PDS and CSI service lines. Operating profit excl. one-off items[1)] stood at EUR 31.3 (28.6) million, or 7.2% (6.3) of net sales. The drop in net sales had a negative effect on operating profit. However, this was offset by the efficient execution of the cost savings programme to adjust operations to demand. Personnel costs excl. restructuring costs were down by around EUR 20 million. Currency changes had a positive impact of EUR 2 million on operating profit.

Depreciation and amortization amounted to EUR 20.8 (21.0) million. Net financial expenses stood at EUR 1.7 (2.1) million in the second quarter. Net interest expenses were EUR 1.7 (1.7) million and net gains from foreign exchange transactions EUR 0.3 (-0.1) million. Other financial income and expenses amounted to EUR -0.3 (-0.3) million.

Second-quarter earnings per share (EPS) totalled EUR 0.10 (-0.10). Earnings per share excluding one-off items[1)] and the non-recurring taxes related to the divestment amounted to EUR 0.30 (0.26).

[1)] Excl. capital gains, impairments and restructuring costs

Financial performance by service line

EUR million	Customer sales 4–6/2013	Customer sales 4–6/2012	Change, %	Operating profit 4–6/2013	Operating profit 4–6/2012
Managed Services	128	121	6	5.2	-3.7
Consulting and System Integration	107	125	-14	2.8	3.9
Industry Products	121	127	-5	15.8	8.4
Product Development Services	79	83	-5	-2.6	-3.9
Steering Functions and Global Management				-5.6	-8.0
Total	**436**	**456**	**-4**	**15.5**	**-3.3**

Operating margin by service line

%	Operating margin 4–6/2013	Operating margin 4–6/2012	Operating margin excl. one-off items[1)] 4–6/2013	Operating margin excl. one-off items[1)] 4–6/2012
Managed Services	4.0	-3.1	4.3	5.9
Consulting and System Integration	2.6	3.1	8.9	9.0
Industry Products	13.0	6.6	14.0	9.9
Product Development Services	-3.4	-4.7	2.6	2.6
Total	**3.6**	**-0.7**	**7.2**	**6.3**

[1)] Excl. capital gains, impairments and restructuring costs

For a comprehensive set of service line and industry group figures, see the tables section.

In Managed Services, the market for projects to transform ICT infrastructure to cloud-based environments remained active in the second quarter. Based on new signings for Tieto's cloud-based offerings in both Finland and Sweden, cloud-related sales rose by 22% from the first quarter of 2013 to EUR 5 million, representing 4% of net sales. The Financial Services and the Public, Healthcare and Welfare industry groups enjoyed the strongest growth. Higher volumes and quality improvements did not fully translate into profits due to lower unit prices resulting from intense competition. The comparison figure for operating profit in 2012 included close to EUR 2 million in non-recurring income.

In Consulting and System Integration, sales declined by EUR 17.7 million, or 14%, mainly due to the divestments (EUR 8.1 million) and weak development in the telecom sector (EUR 9.5 million). Sweden continued to be the most challenging market. Utilization rates improved, but due to lower volumes, profitability of the underlying business remained at the previous year's level although it improved from the first quarter. Actions to improve profitability are ongoing.

In Industry Products, second-quarter sales were down, mainly because licence sales in the Public, Healthcare and Welfare products business were lower than in the strong corresponding quarter of 2012. In general, there is good demand for Tieto solutions in the healthcare and welfare, oil & gas and banking sector. The strong SaaS (Software as a Service) trend continues, especially in the banking and healthcare sectors. Due to higher operational efficiency, profitability of the underlying business remained healthy and improved from the previous year.

In Product Development Services (PDS), weak development in the devices area is partly offset by growth in the networks area. PDS has adjusted its operations during the past quarters. However, due to customers' continued cost savings pressure and lower volumes, profitability of the underlying business remained at the previous year's level. In the short term, PDS foresees that customers' reduced spending will keep the market volatile and commitments short.

Customer sales by industry group

EUR million	Customer sales 4–6/2013	Customer sales 4–6/2012	Change, %
Financial Services	97	92	5
Manufacturing, Retail and Logistics	78	81	-3
Public, Healthcare and Welfare	109	110	-1
Telecom, Media and Energy	74	91	-19
Product Development Services	79	83	-5
Total	**436**	**456**	**-4**

The Financial Services sector continued to offer good opportunities in outsourcing and "as a service" deliveries driven by strong cost pressure from key customers. The industry group won several new contracts during the quarter. Steady growth in Managed Services continued, with strong development in both Finland and Sweden.

In Manufacturing, Retail and Logistics, sales to the retail sector continued to slide, partly due to lower prices in some large contracts. Demand for IT services in the manufacturing sector is weakening and cost savings comprise an important driver to initiate new IT projects. As a result of customers' continued cost saving programmes, sales in the manufacturing sector declined. Several significant new agreements were signed during the quarter in supply chain management and infrastructure services.

In Public, Healthcare and Welfare, reduced central government spending and prolonged decision-making has impacted the IT services market in Finland and second-quarter sales were down. In the Swedish public sector, the operations management and outsourcing market is growing and Tieto's sales were up in the second quarter. Activity level in the healthcare sector in Sweden and Finland has remained good also due to national programmes.

Telecom, Media and Energy was affected by the divestment of businesses in Italy and Spain. Sales in the telecom segment were organically down, mainly due to lower volumes in the European telecom operator business. The energy utilities and media segments also suffered from lower demand. Tieto's product for hydrocarbon accounting, developed for oil and gas companies, continued to experience healthy growth.

Financial performance in January–June

Six-month net sales were down by 5% and amounted to EUR 881.0 (923.2) million. The divestments had a negative impact of EUR 22 million. Organically, net sales declined by 2%. This was driven mainly by the drop in the telecom sector. Outside the telecom sector, organic growth was 1%. This development was also reflected as a sales decline in Consulting and System Integration. Currency fluctuations had a positive impact of EUR 12 million on sales.

Six-month operating profit (EBIT) amounted to EUR 45.6 (38.8) million, representing a margin of 5.2% (4.2). Operating profit includes restructuring costs of EUR 9.6 million and impairment loss of EUR 8.0 million related to the divestment of the German and Dutch operations. Operating profit excl. one-off items[1)] stood at EUR 63.3 (57.0) million, or 7.2% (6.2) of net sales. Personnel costs excl. restructuring costs were down by around EUR 36 million. Currency changes had a positive impact of EUR 4 million on operating profit.

Depreciation and amortization amounted to EUR 42.0 (41.7) million. Net financial expenses stood at EUR 3.2 (4.6) million in the first half. Net interest expenses were EUR 2.9 (3.5) million and net gains from foreign exchange transactions EUR 0.3 (-0.6) million. Other financial income and expenses amounted to EUR -0.6 (-0.5) million.

Six-month earnings per share (EPS) totalled EUR 0.40 (0.35). Earnings per share excluding one-off items[1)] and the non-recurring taxes related to the divestment amounted to EUR 0.62 (0.51).

[1)] Excl. capital gains, impairments and restructuring costs

Financial performance by service line

EUR million	Customer sales 1–6/2013	Customer sales 1–6/2012	Change, %	Operating profit 1–6/2013	Operating profit 1–6/2012
Managed Services	253	245	3	6.5	-6.2
Consulting and System Integration	216	252	-15	6.6	16.5
Industry Products	247	258	-4	34.2	40.8
Product Development Services	165	168	-2	6.7	-1.3
Steering Functions and Global Management				-8.3	-11.0
Total	**881**	**923**	**-5**	**45.6**	**38.8**

Operating margin by service line

%	Operating margin 1–6/2013	Operating margin 1–6/2012	Operating margin excl. one-off items[1] 1–6/2013	Operating margin excl. one-off items[1] 1–6/2012
Managed Services	2.6	-2.5	2.5	2.1
Consulting and System Integration	3.1	6.5	6.8	9.5
Industry Products	13.8	15.8	14.4	11.5
Product Development Services	4.0	-0.8	7.3	3.4
Total	**5.2**	**4.2**	**7.2**	**6.2**

[1] Excl. capital gains, impairments and restructuring costs

Customer sales by industry group

EUR million	Customer sales 1–6/2013	Customer sales 1–6/2012	Change, %
Financial Services	191	186	3
Manufacturing, Retail and Logistics	154	162	-5
Public, Healthcare and Welfare	223	222	0
Telecom, Media and Energy	148	184	-20
Product Development Services	165	168	-2
Total	**881**	**923**	**-5**

Cash flow, financing and investments

Second-quarter net cash flow from operations, including the increase of EUR 22.5 (18.0) million in net working capital, amounted to EUR 10.0 million (-3.8).

Six-month net cash flow from operations amounted to EUR 51.2 million (65.0). The comparison figure includes a tax refund of EUR 15.9 million.

Tax payments were EUR 9.7 million (positive 1.7 due to a refund in Finland) in the first half.

There were no acquisitions (EUR 0.4 million in 2012) in the first half. The divestment of the German and Dutch operations had a negative impact of EUR 19.5 million on the first-half cash flow from investing activities.

Six-month investments totalled EUR 32.6 (28.0) million, of which paid EUR 29.0 million (27.6).

The equity ratio was 43.7% (43.4). Gearing decreased to 14.8% (15.5). Net debt totalled EUR 71.5 (80.0) million, including EUR 207.0 million in interest-bearing debt, EUR 6.0 million in finance lease liabilities, EUR 7.2 million in finance lease receivables, EUR 2.0 million in other interest-bearing receivables and EUR 132.3 million in cash and cash equivalents.

In May, Tieto issued a senior unsecured bond of EUR 100 million. The six-year bond matures on 23 May 2019 and it carries fixed annual interest of 2.875%. The proceeds from the bond offering will be used to refinance the existing bond of EUR 100 million maturing in December 2013, currently visible in short-term debt. Interest-bearing long-term loans amounted to EUR 99.5 million.

Interest-bearing short-term loans amounted to EUR 107.5 million. Other short-term, interest-bearing loans of EUR 7.5 million were mainly related to an agreement for mainframes and software.

The syndicated revolving credit facility of EUR 100 million maturing in May 2016 was not in use and there were no commercial papers issued under the EUR 250 million commercial paper programme at the end of June. After the issuance of the new bond, Tieto cancelled the unused guarantee facilities of EUR 100 million that could have been used for pension reborrowing purposes (TyEL) in June.

Order backlog

Tieto has fine-tuned its order intake measurement. Going forward, Tieto will report Total Contract Value (TCV) for the contracts signed during the quarter. In the second quarter, TCV amounted to EUR 530 (550) million, of which new deals accounted for around 80% and replacements of existing agreements for 20%. The replacements are typically related to transformation cases for current customers with long existing contracts and have no incremental impact on the order backlog. Second-quarter book-to-bill stood at 1.2 (1.2).

In May, Tieto concluded a major framework agreement with Hansel Ltd. with an anticipated value of about EUR 200–240 million, which is not included in the TCV.

TCV for the deals signed during the first half amounted to EUR 883 (973) million. First-half book-to-bill stood at 1.0 (1.1).

The order backlog comprises services ordered with binding contracts. At the end of the period, the backlog amounted to EUR 1 584 (1 769) million. The comparison figure includes EUR 70 million in order backlog for the divested businesses. In total, 36% (36) of the backlog is expected to be invoiced during 2013.

Business transactions in January–June

On 4 February, Tieto agreed on a divestment of the majority of its operations in Germany and the Netherlands. The transaction has now been closed and the divested business operations, including around 900 employees in total, were transferred to the new owner on 30 June. Net sales of the divested businesses amounted to over EUR 110 million in 2012. The German businesses were loss-making in 2012. Tieto booked EUR 8.0 million in impairment loss related to the divestment in the second-quarter results. Additionally, due to the transactions, second-quarter taxes rose by EUR 2.3 million. The negative cash flow effect of EUR 19.5 million materialized during the second quarter.

During the second quarter, Tieto and Nordea agreed to discontinue the operations of Fidenta, their joint venture, as from 1 July. Fidenta was owned by Tieto (80%) and Nordea (20%), and Nordea acquired Tieto’s 80% stake of the shares on 1 July. In 2012, Fidenta’s net sales amounted to around EUR 30 million of which Tieto’s share has been reported under the Financial Services industry group and Industry Products service line. All 154 employees of the company transferred to either Nordea (129 employees) or Tieto (25 employees) on 1 July and part of the services previously delivered by Fidenta were transferred to Tieto. In 2012, Tieto and Nordea signed a framework agreement for using Tieto’s IT service offshore centre. This agreement also covers part of the work transferred from Fidenta.

Major agreements in January–June

Financial Services

In January, Tieto and Smolensky Bank (Russia) signed a deal to develop the bank's payment card business by implementing a full in-house solution based on Tieto's Card Suite products.

In April, Automatia Pankkiautomaatit Oy renewed its service agreement with Tieto for the next five years. The agreement covers ICT infrastructure services, including production, development and test environments as well as customer support services.

In April, Tieto and SEB concluded a three-year agreement on application and operations management services in order to help the customer achieve effective sub-custody operations.

In May, OP-Pohjola and Ilmarinen signed an extensive service agreement with Tieto. The agreement is a continuation of the service agreement concluded in 2008. The key objectives of the renewal are to improve the availability and quality of the services and to increase cost-efficiency e.g. through standardized operating models and automation. In addition to the enhancement of operating services, the agreement also covers OP-Pohjola's and Ilmarinen's infrastructure services. The new agreement term is three years and it includes a two-year option.

In May, Tieto and Bank of America Merrill Lynch signed an agreement for implementing key components from the Deposit and Liquidity Management and Payments software portfolio. Tieto will be working in partnership with the bank to provide innovative products and services to the Global Treasury clients of Bank of America Merrill Lynch.

Manufacturing, Retail and Logistics

During the first quarter, Swedish pharmaceutical company Apoteket AB extended its contract with Tieto for operation, application management and workstation solutions. The three-year contract has an option of a further two years. The order value amounts to approximately EUR 43 million during the three years.

Tieto and Kesko signed a four-year continuation agreement on the supply of IT services. Tieto will continue as the supplier of Kesko Group's infrastructure services, such as capacity, workstation and integration services. In addition, Tieto and Kesko have agreed to expand their cooperation on SAP services, including the development of Kesko Group's SAP services and the maintenance of the main system supporting Anttila's business operations.

In June, Tieto and Volvohandelns Utvecklings AB (VU) agreed that Tieto will take over the delivery of IT infrastructure and end user services of VU. The order value is estimated at EUR 10 million during a three-year period. The business transfer includes contracts with 70 car dealers, subcontractors' agreements and seven VU employees. The transition starts in September 2013, and the transaction is scheduled for 1 November 2013.

In June, Borregaard, the world's leading biorefinery, chose Tieto to modernize its ICT environment through a five-year agreement. Borregaard will use Tieto's advanced private cloud solutions that utilize leading SAP and Microsoft technology, ensuring increased flexibility and reduced costs.

In June, Tieto and Onninen concluded a three-year agreement on capacity and workstations services.

In June, Tieto and SOK Corporation concluded an agreement on support, maintenance and development services for SOK’s SAP system for non-food procurement. The agreement term is 3.5 years and the order value is EUR 16 million.

Public, Healthcare and Welfare

In May, Hansel Ltd, the central procurement unit of the Finnish Government, selected Tieto as its framework agreement supplier of data centre and capacity services. The agreement runs for six years and begins during summer 2013. The total value of the agreement amounts to about EUR 200–240 million.

Telecom, Media and Energy

In March, Tieto renewed its agreement with TeliaSonera for mainframe production and application operations. The contract is valid until autumn 2016. The order value during the period amounts to approximately EUR 25 million.

In May, Latvenergo, the largest power supply company in the Baltic States, selected Tieto as system integrator for the implementation of Oracle Customer Care and Billing (CC&B). The new system will support Latvenergo in acquiring new customers and provide the highest possible level of customer service.

Personnel

The number of full-time employees amounted to 15 447 (17 723) at the end of June. At the end of June, the number of full-time employees in the global delivery centres totalled 6 603 (7 151), or 42.7% (40.3) of all personnel. In Product Development Services, the offshore rate was 60.8% (58.1). In IT services, the offshore rate continued to rise and stood at 36.5% (33.2) at the end of June.

During the first half, the number of full-time employees decreased by a net amount of close to 1 100. In addition to around 200 job cuts, divestments decreased the number of employees by around 900. On the other hand, new outsourcing deals added some 100 employees.

The 12-month rolling employee turnover stood at 9.7% (11.2) at the end of June. The average number of full-time employees was 16 234 (18 050) in the first half.

Salary inflation is expected to be around 3% on average. In offshore countries, salary inflation is clearly above the average. Markets like India may see double-digit salary hikes.

Management

In June, Eva Gidlöf, member of the Tieto Leadership Team and Head of the Telecom, Media and Energy industry group, decided to pursue new opportunities outside Tieto as of 31 July 2013. Eva Gidlöf was also the Country Manager of Tieto in Sweden. As of 1 July 2013, Kolbjørn Haarr, Head of Tieto's New Markets and a member of Tieto's Leadership Team, took over the responsibility for Telecom, Media and Energy industry group operations. Per Johanson, Head of Financial Services, was appointed as Country Manager of Tieto in Sweden.

Shares and share-based incentives

Tieto's share price declined by 5% during January–June.

Following the subscriptions made with stock options during 1 January–11 April, the number of Tieto shares increased to 73 102 617 and the share capital rose to EUR 76 555 412.00. The shares subscribed were registered in the Trade Register on 26 April 2013. Following the subscriptions made with stock options during 12 April–4 June, the number of Tieto shares increased to 73 113 167. The shares were registered in the Trade Register on 18 June 2013.

At the end of June, the number of shares in the company's or its subsidiaries' possession totalled 553 700, representing 0.8% of the total number of shares and voting rights. The number of outstanding shares, excluding the treasury shares, was 72 559 467. There have not been any changes in the number of shares in the company's possession during 2013.

Near-term risks and uncertainties

The slowdown of European economies might lead to a downturn in the IT services market as well. As top 10 customers account for 34% of Tieto's net sales, the company's development is relatively sensitive to changes in the demand from large customers.

In the telecom sector, demand is relatively weak due to budget cuts made by some of Tieto's key customers. The challenging business environment in this area might have a negative impact on the company going forward. However, the company has a proven track record of being agile in adjusting its operations when necessary.

The ongoing organizational changes and restructuring within the company might create uncertainty among the company's personnel and pose risks related to the company's performance.

Price pressure might lead to weak profitability for IT service companies. Additionally, as is typical of the industry, the large size of individual deals may have a strong effect on growth. Negative development of prices and volumes might result in the need for further redundancies.

Typical risks faced by the IT service industry involve the quality of deliveries, related project overruns and additional technology licence fees. Transitions to offshore delivery centres as well as the ongoing organizational change pose risks of project losses and penalties.

Full-year outlook for 2013

Tieto expects its organic net sales to develop in line with the growth in the market for IT services, with the exception of the weaker outlook in the telecom sector.

Tieto expects its profitability to continue to improve and full-year operating profit (EBIT) excluding one-off items to increase from the previous year's level (EUR 138.8 million in 2012).

The figures in this report are unaudited.

Financial calendar 2013

23 October Interim report 3/2013 (8.00 am EET)

Accounting policies in 2013

The interim report has been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the EU. The accounting policies adopted are consistent with those used in the annual financial statements for the year ended on 31 December 2012. The accounting policies, standards, interpretations and amendments taken into use in 2013 are described in the annual financial statements.

The IAS 19 (Amendment), 'Employee benefits' eliminates the corridor approach and calculates finance costs on a net funding basis. All actuarial profits and losses must be accounted for immediately in other comprehensive income. The balance sheet for 2012 is restated correspondingly by increasing, at the end of December 2012, the net pension liability by EUR 39 million, increasing the net deferred tax asset by EUR 7 million and decreasing the equity by EUR 32 million. The restated operating profit (EBIT) increased in Steering Functions and Global Management by EUR 1.7 million as the interest part of the pension costs for defined benefit plans is regrouped to financial items. The restatement does not impact the net profit.

Other IFRS changes do not currently have any material impact on the Group's financial statements.

The new operating model taken into use in 2013 is steered based on project performance and direct costs are linked to deliveries in services lines, which constitute the main operating segments. In the follow-up of the customer projects, the project is considered as loss-making when the total direct costs exceed the total expected revenue and a provision corresponding to the uncovered direct costs is immediately recognized. In previous years the provision has been calculated at a full cost rate. The impact of the changes is not considered to be material.

Key figures

	2013 4–6	2012 4–6	2013 1–3	2013 1–6	2012 1–6	2012 1–12
Earnings per share, EUR						
Basic	0.10	-0.10	0.30	0.40	0.35	0.41
Diluted	0.10	-0.10	0.30	0.40	0.35	0.41
Equity per share, EUR	6.67	7.18	6.79	6.67	7.18	7.30
Return on equity, 12-month rolling, %	6.6	11.7	3.7	6.6	11.7	5.5
Return on capital employed, 12-month rolling, %	13.9	18.2	11.7	13.9	18.2	13.2
Equity ratio, %	43.7	43.4	42.8	43.7	43.4	46.9
Interest-bearing net debt, EUR million	71.5	80.0	6.9	71.5	80.0	23.9
Gearing, %	14.8	15.5	1.4	14.8	15.5	4.5
Investments, EUR million	15.3	13.6	17.3	32.6	28.0	62.9

Number of shares

	2013 4–6	2013 1–3	2013 1–6	2012 1–6	2012 1–12
Outstanding shares, end of period					
Basic	72 559 467	71 938 859	72 559 467	71 721 167	71 823 513
Diluted	72 812 692	72 542 945	72 828 283	71 968 839	72 532 449
Outstanding shares, average					
Basic	72 382 826	71 917 071	72 151 235	71 561 172	71 659 278
Diluted	72 687 540	72 562 559	72 488 327	71 916 453	72 009 960
Company's possession of its own shares					
End of period	553 700	553 700	553 700	553 700	553 700
Average	553 700	553 700	553 700	553 700	553 700

Income statement, EUR million

	2013 4–6	2012 4–6	2013 1–6	2012 1–6	Change %	2012 1–12
Net sales	436.2	456.1	881.0	923.2	-5	1 825.3
Other operating income	1.4	3.1	3.9	20.1	-81	27.2
Employee benefit expenses	254.6	298.9	513.8	573.2	-10	1 089.0
Depreciation, amortization and impairment charges	28.8	21.0	50.0	42.2	18	119.1
Other operating expenses	138.7	142.6	275.5	289.1	-5	581.4
Operating profit (EBIT)	15.5	-3.3	45.6	38.8	18	63.0
Interest and other financial income	1.3	2.6	2.6	5.4	-52	9.6
Interest and other financial expenses	-3.3	-4.6	-6.1	-9.4	-35	-16.4
Net exchange losses/gains	0.3	-0.1	0.3	-0.6	-	0.5
Profit before taxes	13.8	-5.4	42.4	34.2	24	56.7
Income taxes	-6.4	-1.4	-13.6	-9.0	51	-27.3
Net profit for the period	**7.4**	**-6.8**	**28.8**	**25.2**	**14**	**29.4**
Net profit for the period attributable to						
Shareholders of the Parent company	7.4	-6.8	28.8	25.2	14	29.4
Non-controlling interest	0.0	0.0	0.0	0.0	-	0.0
	7.4	**-6.8**	**28.8**	**25.2**	**14**	**29.4**
Earnings per share attributable to the shareholders of the Parent company, EUR						
Basic	0.10	-0.10	0.40	0.35	14	0.41
Diluted	0.10	-0.10	0.40	0.35	14	0.41
Statement of comprehensive income, EUR million						
Net profit for the period	7.4	-6.8	28.8	25.2	14	29.4
Items that may be reclassified subsequently to profit or loss						
Translation differences	-14.1	0.3	-11.7	2.5	-	0.6
Translation difference from net investment in subsidiaries (net of tax)	-	1.4	-	2.7	-	6.9
Cash flow hedges	-0.4	-0.8	-1.1	0.8	-	1.9
Items that will not be reclassified subsequently to profit or loss						
Actuarial loss on post employment benefit obligations (net of tax)	-3.4	-0.2	-3.4	-12.7	-73	-13.9
Total comprehensive income	**-10.5**	**-6.1**	**12.6**	**18.5**	-32	**24.9**
Total comprehensive income attributable to						
Shareholders of the Parent company	-10.5	-6.1	12.6	18.5	-32	24.9
Non-controlling interest	0.0	0.0	0.0	0.0	-	0.0
	-10.5	**-6.1**	**12.6**	**18.5**	**-32**	**24.9**

Balance sheet, EUR million

	2013 30 Jun	2012 30 Jun	Change %	2012 31 Dec
Goodwill	385.0	416.6	-8	391.6
Other intangible assets	46.1	67.3	-32	55.5
Property, plant and equipment	98.6	99.2	-1	99.3
Deferred tax assets	32.1	51.9	-38	30.4
Finance lease receivables	4.1	3.1	32	5.5
Other interest-bearing receivables	1.7	-	-	0.9
Available-for-sale financial assets	0.7	0.8	-13	0.8
Total non-current assets	568.3	638.9	-11	584.0
Trade and other receivables	459.2	503.6	-9	456.2
Finance lease receivables	3.1	1.4	121	2.8
Other interest-bearing receivables	0.3	-	-	1.1
Current income tax receivables	4.2	9.6	-56	4.0
Cash and cash equivalents	132.3	91.1	45	86.7
Total current assets	599.1	605.7	-1	550.8
Assets classified as held for sale	6.2	17.8	-	44.8
Total assets	**1 173.6**	**1 262.4**	**-7**	**1 179.6**
Share capital, share issue premiums and other reserves	122.6	115.7	6	117.3
Share issue based on stock options	-	-	-	1.2
Retained earnings	361.1	399.1	-10	405.8
Parent shareholders' equity	483.7	514.8	-6	524.3
Non-controlling interest	0.2	0.1	100	0.2
Total equity	483.9	514.9	-6	524.5
Loans	102.1	110.3	-7	4.0
Deferred tax liabilities	25.4	36.3	-30	25.3
Provisions	5.1	5.5	-7	6.0
Pension obligations	24.2	53.0	-54	28.0
Other non-current liabilities	3.6	4.5	-20	4.1
Total non-current liabilities	160.4	209.6	-23	67.4
Trade and other payables	376.1	404.6	-7	377.5
Current income tax liabilities	9.3	11.4	-18	5.1
Provisions	28.4	42.7	-33	32.8
Loans	110.9	65.3	70	116.8
Total current liabilities	524.7	524.0	0	532.2
Liabilities classified as held for sale	4.6	13.9	-	55.5
Total equity and liabilities	**1 173.6**	**1 262.4**	**-7**	**1 179.6**

Net working capital in the balance sheet, EUR million

	2013 30 Jun	2012 30 Jun	Change %	2013 31 Mar	2012 31 Dec
Accounts receivable	341.9	355.6	-4	345.5	340.6
Other working capital receivables	104.8	130.9	-20	118.3	103.5
Working capital receivables included in assets	**446.7**	**486.5**	**-8**	**463.8**	**444.1**
Accounts payable	71.5	83.6	-14	79.7	86.6
Personnel related accruals	156.1	163.6	-5	174.9	157.3
Other working capital liabilities	179.3	201.3	-11	189.3	173.5
Working capital liabilities included in current liabilities	**406.9**	**448.5**	**-9**	**443.9**	**417.4**
Net working capital in the balance sheet	**39.8**	**38.0**	**5**	**19.9**	**26.7**

Working capital receivables EUR 2.3 million (36.5) and working capital liabilities EUR 2.1 million (32.9) are classified as held for sale end June 2013 (December 2012).

Cash flow, EUR million

	2013 4–6	2012 4–6	2013 1–3	2013 1–6	2012 1–6	2012 1–12
Cash flow from operations						
Net profit	7.4	-6.8	21.4	28.8	25.2	29.4
Adjustments						
Depreciation, amortization and impairment charges	28.8	21.0	21.2	50.0	42.2	119.1
Share-based payments	0.1	0.6	0.4	0.5	1.4	1.9
Profit/loss on sale of fixed assets and shares	0.0	0.0	0.1	0.1	-15.4	-14.4
Other adjustments	-4.9	0.2	-1.8	-6.7	-1.6	-3.3
Net financial expenses	1.7	2.1	1.5	3.2	4.6	6.3
Income taxes	6.4	1.4	7.2	13.6	9.0	27.3
Change in net working capital	-22.5	-18.0	-1.1	-23.6	-1.2	11.5
Cash generated from operations	17.0	0.5	48.9	65.9	64.2	177.8
Net financial expenses paid	-2.0	0.4	-3.0	-5.0	-0.9	-5.2
Income taxes paid	-5.0	-4.7	-4.7	-9.7	1.7	-10.7
Net cash flow from operations	**10.0**	**-3.8**	**41.2**	**51.2**	**65.0**	**161.9**
Cash flow from investing activities						
Acquisition of Group companies and business operations, net of cash acquired	-	-0.1	-0,0	-0,0	-0.4	-0.5
Capital expenditures	-15.7	-13.4	-13.3	-29.0	-27.6	-59.1
Disposal of Group companies and business operations, net of cash disposed	-19.5	1.5	-0,0	-19.5	19.2	18.7
Sales of fixed assets	0.0	0.2	0.0	0.0	0.2	-0.3
Change in loan receivables	1.4	0.2	-0.4	1.0	0.5	-5.1
Net cash used in investing activities	**-33.8**	**-11.6**	**-13.7**	**-47.5**	**-8.1**	**-46.3**
Cash flow from financing activities						
Dividends paid	-59.7	-53.7	-	-59.7	-53.7	-53.7
Exercise of stock options	5.7	1.3	1.2	6.9	1.8	2.8
Payments of finance lease liabilities	-0.6	-0.5	-2.8	-3.4	-1.1	-4.3
Change in interest-bearing liabilities	95.9	-3.3	-3.6	92.3	-6.9	-62.7
Net cash used in financing activities	**41.3**	**-56.2**	**-5.2**	**36.1**	**-59.9**	**-117.9**
Change in cash and cash equivalents	**17.5**	**-71.6**	**22.3**	**39.8**	**-3.0**	**-2.3**
Cash and cash equivalents at the beginning of period	100.3	162.9	86.7	86.7	95.8	95.8
Foreign exchange differences	2.2	-0.3	2.0	4.2	-0.3	-2.2
Assets classified as held for sale	12.3	0.1	-10.7	1.6	-1.4	-4.6
Change in cash and cash equivalents	17.5	-71.6	22.3	39.8	-3.0	-2.3
Cash and cash equivalents at the end of period	**132.3**	**91.1**	**100.3**	**132.3**	**91.1**	**86.7**

Statement of changes in shareholders' equity, EUR million

	Parent shareholders' equity								Non-controlling interest	Total equity
	Share capital	Share issue premiums and other reserves	Own shares	Translation differences	Cash flow hedges	Invested unrestricted equity reserve	Retained earnings	Total		
At 31 Dec 2011	**75.8**	**39.0**	**-11.6**	**19.6**	**-1.8**	**0.6**	**425.1**	**546.7**	**0.2**	**546.9**
Comprehensive income										
Net profit for the period							25.2	25.2	0.0	25.2
Other comprehensive income										
Actuarial loss on post employment benefit obligations (net of tax)							-12.7	-12.7		-12.7
Translation difference from net investment in subsidiaries (net of tax)							2.7	2.7		2.7
Translation difference		0.5		8.2			-6.2	2.5		2.5
Cash flow hedges					0.8			0.8		0.8
Total comprehensive income		**0.5**		**8.2**	**0.8**		**9.0**	**18.5**	**0.0**	**18.5**
Transactions with owners										
Share-based payments recognized against equity							1.3	1.3		1.3
Dividend							-53.6	-53.6		-53.6
Share subscriptions based on stock options		0.4				1.4		1.8		1.8
Non-controlling interest										0.0
Total transactions with owners		**0.4**				**1.4**	**-52.3**	**-50.5**	**0.0**	**-50.5**
At 30 Jun 2012	**75.8**	**39.9**	**-11.6**	**27.8**	**-1.0**	**2.0**	**381.8**	**514.7**	**0.2**	**514.9**

	Parent shareholders' equity									Non-controlling interest	Total equity
	Share capital	Share issue premiums and other reserves	Share issue based on stock options	Own shares	Translation differences	Cash flow hedges	Invested unrestricted equity reserve	Retained earnings	Total		
At 31 Dec 2012	**75.9**	**41.4**	**1.2**	**-11.6**	**8.4**	**0.1**	**2.2**	**406.7**	**524.3**	**0.2**	**524.5**
Comprehensive income											
Net profit for the period								28.8	28.8	0.0	28.8
Other comprehensive income											
Actuarial loss on post employment benefit obligations (net of tax)								-3.4	-3.4		-3.4
Translation difference		-0.8			-23.0			12.1	-11.7		-11.7
Cash flow hedges						-1.1			-1.1		-1.1
Total comprehensive income		**-0.8**			**-23.0**	**-1.1**		**37.5**	**12.6**	**0.0**	**12.6**
Transactions with owners											
Share-based payments recognized against equity								0.7	0.7		0.7
Dividend								-59.7	-59.7		-59.7
Share subscriptions based on stock options	0.6	5.6	-1.2				0.8		5.8		5.8
Non-controlling interest											0.0
Total transactions with owners	**0.6**	**5.6**	**-1.2**				**0.8**	**-59.0**	**-53.2**	**0.0**	**-53.2**
At 30 Jun 2013	**76.5**	**46.2**	**0.0**	**-11.6**	**-14.6**	**-1.0**	**3.0**	**385.2**	**483.7**	**0.2**	**483.9**

Segment information

Customer sales by service line, EUR million

	2013 4-6	2012 4-6	Change %	2013 1–6	2012 1–6	Change %	2012 1–12
Managed Services	128	121	6	253	245	3	484
Consulting and System Integration	107	125	-14	216	252	-15	500
Industry Products	121	127	-5	247	258	-4	510
Product Development Services	79	83	-5	165	168	-2	331
Group total	**436**	**456**	**-4**	**881**	**923**	**-5**	**1 825**

No internal sales occur between service lines as in the management accounting, revenue and costs are booked directly to the respective customer projects in the service lines.

Customer sales by country, EUR million

	2013 1–6	Change %	Share %	2012 1–6	Share %	2012 1–12
Finland	413	-2	47	420	45	830
Sweden	283	-2	32	288	31	580
Other	185	-14	21	215	23	415
Group total	**881**	**-5**	**100**	**923**	**100**	**1 825**

Customer sales by industry group, EUR million

	2013 4-6	2012 4-6	Change %	2013 1–6	2012 1–6	Change %	2012 1–12
Financial Services	97	92	5	191	186	3	368
Manufacturing, Retail and Logistics	78	81	-3	154	162	-5	322
Public, Healthcare and Welfare	109	110	-1	223	222	0	439
Telecom, Media and Energy	74	91	-19	148	184	-20	364
Product Development Services	79	83	-5	165	168	-2	331
Group total	**436**	**456**	**-4**	**881**	**923**	**-5**	**1 825**

Customer sales to the telecom sector were EUR 120 (137) during April-June and EUR 246 (288) million during January-June.

Revenues derived from any single external customer during January–June do not exceed the 10% level of the total net sales of the Group (EUR 92.5 million in 2012).

Operating profit (EBIT) by service line, EUR million

	2013 4-6	2012 4-6	Change %	2013 1–6	2012 1–6	Change %	2012 1–12
Managed Services	5.2	-3.7	240.2	6.5	-6.2	204.2	6.4
Consulting and System Integration	2.8	3.9	-27.3	6.6	16.5	-60.1	34.0
Industry Products	15.8	8.4	87.2	34.2	40.8	-16.2	65.2
Product Development Services	-2.6	-3.9	31.9	6.7	-1.3	597.6	24.9
Steering Functions and Global Management	-5.6	-8.0	30.3	-8.3	-11.0	24.7	17.8
Operating profit (EBIT)	**15.5**	**-3.3**	**563.4**	**45.6**	**38.8**	**17.6**	**63.0**

Operating margin (EBIT) by service line, %

	2013 4-6	2012 4-6	Change	2013 1–6	2012 1–6	Change	2012 1–12
Managed Services	4.0	-3.1	7.1	2.6	-2.5	5.1	1.3
Consulting and System Integration	2.6	3.1	-0.5	3.1	6.5	-3.5	6.8
Industry Products	13.0	6.6	6.4	13.8	15.8	-2.0	12.8
Product Development Services	-3.4	-4.7	1.3	4.0	-0.8	4.8	-7.5
Operating margin (EBIT)	**3.6**	**-0.7**	**4.3**	**5.2**	**4.2**	**1.0**	**3.4**

The new operating model taken into use 2013 is steered based on project performance and direct costs are linked to the deliveries in the service lines. The calculation of operating margin percentages is based on only customer sales by service lines as the internal invoicing between the legal entities based on transfer pricing requirements is reported within Steering Functions and Global Management.

Operating profit (EBIT) excl. one-off items by service line, EUR million

	2013 4-6	2012 4-6	Change %	2013 1–6	2012 1–6	Change %	2012 1–12
Managed Services	5.5	7.2	-22.8	6.4	5.1	26.3	24.3
Consulting and System Integration	9.6	11.3	-15.4	14.7	24.0	-39.0	56.1
Industry Products	16.9	12.6	34.2	35.5	29.7	19.8	62.5
Product Development Services	2.0	2.2	-7.3	12.0	5.7	110.2	9.7
Steering Functions and Global Management	-2.8	-4.7	41.2	-5.4	-7.6	28.6	-13.8
Operating profit (EBIT)	**31.3**	**28.6**	**9.4**	**63.3**	**57.0**	**11.1**	**138.8**

Operating margin (EBIT) excl. one-off items by service line, %

	2013 4-6	2012 4-6	Change	2013 1–6	2012 1–6	Change	2012 1–12
Managed Services	4.3	5.9	-1.6	2.5	2.1	0.5	5.0
Consulting and System Integration	8.9	9.0	-0.1	6.8	9.5	-2.7	11.2
Industry Products	14.0	9.9	4.1	14.4	11.5	2.9	12.3
Product Development Services	2.6	2.6	-0.1	7.3	3.4	3.9	2.9
Operating margin (EBIT)	**7.2**	**6.3**	**0.9**	**7.2**	**6.2**	**1.0**	**7.6**

Personnel by service line

	End of period					Average	
	2013	Change	Share	2012	2012	2013	2012
	1–6	%	%	1–6	1–12	1–6	1–6
Managed Services	3 199	-5	21	3 369	3 228	3 162	3 394
Consulting and System Integration	4 136	-12	27	4 675	4 104	4 280	4 771
Industry Products	3 377	-5	22	3 572	3 550	3 531	3 652
Product Development Services	3 543	-23	23	4 615	4 310	4 034	4 684
Service Lines total	**14 253**	**-12**	**92**	**16 232**	**15 192**	**15 008**	**16 501**
Industry Groups	415	-40	3	697	607	432	719
Steering Functions and Global Management	778	-2	5	794	738	795	830
Group total	**15 447**	**-13**	**100**	**17 723**	**16 537**	**16 234**	**18 050**

Personnel by country

	End of period					Average	
	2013	Change	Share	2012	2012	2013	2012
	1–6	%	%	1–6	1–12	1–6	1–6
Finland	5 264	-5	34	5 539	5 266	5 279	5 560
Sweden	2 813	-10	18	3 124	2 962	2 850	3 157
Czech Republic	1 911	-1	12	1 921	1 918	1 911	1 990
India	1 547	-2	10	1 575	1 523	1 586	1 640
China	1 072	-17	7	1 291	1 185	1 106	1 366
Poland	847	-29	5	1 191	1 084	999	1 193
Latvia	676	7	4	633	638	655	623
Norway	452	0	3	452	444	444	463
Philippines	189	139	1	79	165	183	45
Lithuania	131	-8	1	143	143	134	148
Germany	83	-89	1	771	659	545	804
Other	462	-54	3	1 005	552	543	1 061
Group total	**15 447**	**-13**	**100**	**17 723**	**16 537**	**16 234**	**18 050**
Onshore countries	8 844	-16	57	10 572	9 658	9 430	10 755
Offshore countries	6 603	-8	43	7 151	6 879	6 804	7 295
Group total	**15 447**	**-13**	**100**	**17 723**	**16 537**	**16 234**	**18 050**

Non-current assets by country, EUR million

	2013 30 Jun	2012 30 Jun	Change %	2012 31 Dec
Finland	101.8	119.0	-14	111.3
Sweden	31.9	31.7	1	31.5
Other	11.0	15.8	-30	12.0
Total countries	**144.7**	**166.5**	**-13**	**154.8**
Non-current assets classified as held for sale	6.2	1.1	488	44.8
Total non-current assets	**150.9**	**167.6**	**-10**	**199.6**

Goodwill is allocated to the Cash Generating Units, which include several countries and therefore goodwill is not included in the country specific non-current assets shown above.

Depreciation by service line, EUR million

	2013 4-6	2012 4-6	Change %	2013 1–6	2012 1–6	Change %	2012 1–12
Managed Services	17.0	16.3	4	34.3	32.5	5	67.0
Consulting and System Integration	0.3	0.2	28	0.5	0.4	12	1.0
Industry Products	0.2	0.3	-17	0.5	0.5	-4	1.1
Product Development Services	0.2	0.2	-15	0.4	0.5	-15	0.9
Steering Functions and Global Management	2.3	2.5	-7	4.5	4.8	-6	9.6
Group total	**20.0**	**19.5**	**-7**	**40.2**	**38.8**	**-8**	**79.7**

Amortization on allocated intangible assets from acquisitions by service line, EUR million

	2013 4-6	2012 4-6	Change %	2013 1–6	2012 1–6	Change %	2012 1–12
Managed Services	0.4	0.7	-43	0.9	1.3	-34	2.6
Consulting and System Integration	0.1	0.2	-3	0.3	0.3	-1	0.6
Industry Products	0.2	0.4	-57	0.4	0.9	-51	1.5
Product Development Services	0.1	0.2	-49	0.2	0.4	-51	0.6
Steering Functions and Global Management	0.0	0.0	-	0.0	0.0	-	0.0
Group total	**0.8**	**1.4**	**-43**	**1.8**	**2.9**	**-37**	**5.3**

Impairment losses by service line, EUR million

	2013 4-6	2012 4-6	Change %	2013 1–6	2012 1–6	Change %	2012 1–12
Managed Services	0.1	0.0	-	0.1	0.5	-74	1.0
Consulting and System Integration	2.6	0.0	-	2.6	0.0	-	11.5
Industry Products	1.3	0.0	-	1.3	0.0	-	6.5
Product Development Services	3.6	0.0	-	3.6	0.0	-	15.1
Steering Functions and Global Management	0.4	0.0	-	0.4	0.0	-	0.0
Group total	**8.0**	**0.0**	**-**	**8.0**	**0.5**	**1 425**	**34.1**

Commitments and contingencies, EUR million

	30 Jun 2013	31 Dec 2012
For Tieto obligations		
Guarantees		
Performance guarantees	49.2	42.8
Lease guarantees	10.4	10.4
Other	1.1	0.5
Other Tieto obligations		
Rent commitments due in one year	53.8	53.6
Rent commitments due in 1-5 years	116.8	134.2
Rent commitments due after 5 years	12.3	19.4
Operating lease commitments due in one year	5.6	7.0
Operating lease commitments due in 1-5 years	5.4	6.8
Operating lease commitments due after 5 years	0.0	0.0
Other commitments	3.7	3.5
On behalf of joint ventures	-	-
On behalf of Others		
Guarantees	3.9	-

Derivatives, EUR million

Notional amounts of derivatives

Includes the gross amount of all notional values for contracts that have not yet been settled or closed. The amount of notional value outstanding is not necessarily a measure or indication of market risk, as the exposure of certain contracts may be offset by other contracts.

	30 Jun 2013	31 Dec 2012
Foreign exchange forward contracts	249.8	250.2
Forward contracts outside hedge accounting	181.1	187.7
Forward contracts within hedge accounting	68.7	62.6
Electricity price futures contracts	1.7	2.0
Interest rate swap	200.0	200.0
Currency options	-	-

Fair values of derivatives

The net fair values of derivative financial instruments at the balance sheet date were:

	30 Jun 2013	31 Dec 2012
Foreign exchange forward contracts	-1.8	0.3
Electricity price futures contracts	-0.3	-0.3
Interest rate swaps	-0.2	-0.2
Currency options	-	-

Derivatives are used for economic hedging purposes only.

Gross positive fair values of derivatives:	**Positive 30 Jun 2013**	**Positive 31 Dec 2012**
Foreign exchange forward contracts	1.4	1.6
Forward contracts outside hedge accounting	1.0	0.6
Forward contracts within hedge accounting *)	0.4	1.0
Electricity price futures contracts	-	-
Interest rate swaps	3.4	2.4
Currency options	-	-

Gross negative fair values of derivatives:	**Negative 30 Jun 2013**	**Negative 31 Dec 2012**
Foreign exchange forward contracts	-3.2	-1.3
Forward contracts outside hedge accounting	-1.8	-0.8
Forward contracts within hedge accounting *)	-1.4	-0.5
Electricity price futures contracts	-0.3	-0.3
Interest rate swaps	-3.5	-2.6
Currency options	-	-

*) Forward contracts within hedge accounting (net)	-1.0	0.5
The amount recognized in equity	-1.2	0.3
Net periodic interest rate difference recognized in interest income/expenses	0.2	0.3

Foreign exchange derivatives' fair values are calculated according to FX and interest rates on the closing date.

Interest rate swaps are valued according to the present value of their cash flows, supported by all relevant market data.

Fair value measurement of financial assets and liabilities

EUR million 30 Jun 2013	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	4.7	-	4.7
Available-for-sale investments	-	-	0.7	0.7
Financial liabilities at fair value through profit or loss				
Derivatives	-	7.1	-	7.1

EUR million 31 Dec 2012	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	4.0	-	4.0
Available-for-sale investments	-	-	0.7	0.7
Financial liabilities at fair value through profit or loss				
Derivatives	-	4.2	-	4.2

Available-for-sale investments' fair value measurement is based on their initial value. The fair market value cannot be reliably estimated, due to lack of proper market for the assets.

QUARTERLY FIGURES

Key figures

	2013 4–6	2013 1–3	2012 10–12	2012 7–9	2012 4–6	2012 1–3
Earnings per share, EUR						
Basic	0.10	0.30	-0.26	0.32	-0.10	0.45
Diluted	0.10	0.30	-0.26	0.32	-0.10	0.45
Equity per share, EUR	6.67	6.79	7.30	7.62	7.18	7.27
Return on equity, 12-month rolling, %	6.6	3.7	5.5	11.2	11.7	15.4
Return on capital employed,12-month rolling, %	13.9	11.7	13.2	18.5	18.2	21.7
Equity ratio, %	43.7	42.8	46.9	47.9	43.4	42.4
Interest-bearing net debt, EUR million	71.5	6.9	23.9	59.0	80.0	11.7
Gearing, %	14.8	1.4	4.5	10.8	15.5	2.2
Investments, EUR million	15.3	17.3	19.3	15.6	13.6	14.4

Income statement, EUR million

	2013 4–6	2013 1–3	2012 10–12	2012 7–9	2012 4–6	2012 1–3
Net sales	436.2	444.8	478.6	423.5	456.1	467.1
Other operating income	1.4	2.5	5.3	1.8	3.1	17.0
Employee benefit expenses	254.6	259.2	281.9	233.9	298.9	274.3
Depreciation, amortization and impairment charges	28.8	21.2	55.1	21.8	21.0	21.2
Other operating expenses	138.7	136.8	154.7	137.6	142.6	146.5
Operating profit (EBIT)	15.5	30.1	-7.8	32.0	-3.3	42.1
Financial income and expenses	-1.7	-1.5	-1.2	-0.5	-2.1	-2.5
Profit before taxes	13.8	28.6	-9.0	31.5	-5.4	39.6
Income taxes	-6.4	-7.2	-9.5	-8.8	-1.4	-7.6
Net profit for the period	**7.4**	**21.4**	**-18.5**	**22.7**	**-6.8**	**32.0**

Balance sheet, EUR million

	2013 30 Jun	2013 31 Mar	2012 31 Dec	2012 30 Sep	2012 30 Jun	2012 31 Mar
Goodwill	385.0	394.2	391.6	423.3	416.6	415.3
Other intangible assets	46.1	51.4	55.5	61.8	67.3	72.4
Property, plant and equipment	98.6	100.8	99.3	99.7	99.2	101.8
Other non-current assets	38.6	37.0	37.6	58.8	55.8	54.0
Total non-current assets	568.3	583.4	584.0	643.6	638.9	643.5
Trade receivables and other current assets	466.8	486.1	464.1	492.5	514.6	480.2
Cash and cash equivalents	132.3	100.3	86.7	55.9	91.1	162.9
Total current assets	599.1	586.4	550.8	548.4	605.7	643.1
Assets classified as held for sale	6.2	54.8	44.8	18.5	17.8	25.6
Total assets	**1 173.6**	**1 224.6**	**1 179.6**	**1 210.5**	**1 262.4**	**1 312.2**
Total equity	483.9	488.7	524.5	547.3	514.9	519.3
Non-current loans	102.1	3.7	4.0	107.2	110.3	114.3
Other non-current liabilities	58.3	61.5	63.4	101.0	99.3	99.7
Total non-current liabilities	160.4	65.2	67.4	208.2	209.6	214.0
Trade payables and other current liabilities	385.4	478.7	382.6	387.2	416.0	477.7
Provisions	28.4	26.7	32.8	38.2	42.7	19.6
Current loans	110.9	114.3	116.8	16.1	65.3	65.1
Total current liabilities	524.7	619.7	532.2	441.5	524.0	562.4
Liabilities classified as held for sale	4.6	51.0	55.5	13.5	13.9	16.5
Total equity and liabilities	**1 173.6**	**1 224.6**	**1 179.6**	**1 210.5**	**1 262.4**	**1 312.2**

Cash flow, EUR million

	2013 4–6	2013 1–3	2012 10–12	2012 7–9	2012 4–6	2012 1–3
Cash flow from operations						
Net profit	7.4	21.4	-18.5	22.7	-6.8	32.0
Adjustments	32.1	28.6	64.3	32.4	25.3	14.9
Change in net working capital	-22.5	-1.1	27.0	-14.3	-18.0	16.8
Cash generated from operations	17.0	48.9	72.8	40.8	0.5	63.7
Net financial expenses paid	-2.0	-3.0	-4.5	0.2	0.4	-1.3
Income taxes paid	-5.0	-4.7	-7.7	-4.7	-4.7	6.4
Net cash flow from operations	**10.0**	**41.2**	**60.6**	**36.3**	**-3.8**	**68.8**
Net cash used in investing activities	**-33.8**	**-13.7**	**-22.4**	**-15.8**	**-11.6**	**3.5**
Net cash used in financing activities	**41.3**	**-5.2**	**-2.7**	**-55.3**	**-56.2**	**-3.7**
Change in cash and cash equivalents	**17.5**	**22.3**	**35.5**	**-34.8**	**-71.6**	**68.6**
Cash and cash equivalents at the beginning of period	100.3	86.7	55.9	91.1	162.9	95.8
Foreign exchange differences	2.2	2.0	-1.2	-0.7	-0.3	0.0
Assets classified as held for sale	12.3	-10.7	-3.5	0.3	0.1	-1.5
Change in cash and cash equivalents	17.5	22.3	35.5	-34.8	-71.6	68.6
Cash and cash equivalents at the end of period	**132.3**	**100.3**	**86.7**	**55.9**	**91.1**	**162.9**

QUARTERLY FIGURES BY SEGMENTS

Customer sales by service line, EUR million

	2013 4–6	2013 1–3	2012 10–12	2012 7–9	2012 4–6	2012 1–3
Managed Services	128	125	127	112	121	124
Consulting and System Integration	107	108	131	116	125	127
Industry Products	121	126	134	118	127	130
Product Development Services	79	86	87	77	83	86
Group total	**436**	**445**	**479**	**424**	**456**	**467**

Customer sales by industry group, EUR million

	2013 4–6	2013 1–3	2012 10–12	2012 7–9	2012 4–6	2012 1–3
Financial Services	97	94	97	85	92	94
Manufacturing, Retail and Logistics	78	76	85	75	81	82
Public, Healthcare and Welfare	109	114	115	102	110	112
Telecom, Media and Energy	74	74	96	85	91	93
Product Development Services	79	86	87	77	83	86
Group total	**436**	**445**	**479**	**424**	**456**	**467**

Operating profit (EBIT) by service line, EUR million

	2013 4–6	2013 1–3	2012 10–12	2012 7–9	2012 4–6	2012 1–3
Managed Services	5.2	1.3	5.1	7.5	-3.7	-2.5
Consulting and System Integration	2.8	3.8	4.5	13.0	3.9	12.7
Industry Products	15.8	18.5	11.4	13.0	8.4	32.4
Product Development Services	-2.6	9.3	-23.9	0.4	-3.9	2.5
Steering Functions and Global Management	-5.6	-2.7	-5.0	-1.8	-8.0	-3.0
Operating profit (EBIT)	**15.5**	**30.1**	**-7.8**	**32.0**	**-3.3**	**42.1**

Operating margin (EBIT) by service line, %

	2013 4–6	2013 1–3	2012 10–12	2012 7–9	2012 4–6	2012 1–3
Managed Services	4.0	1.0	4.1	6.6	-3.1	-2.0
Consulting and System Integration	2.6	3.5	3.4	11.2	3.1	9.9
Industry Products	13.0	14.6	8.5	11.0	6.6	24.9
Product Development Services	-3.4	10.8	-27.7	0.5	-4.7	3.0
Operating margin (EBIT)	**3.6**	**6.8**	**-1.7**	**7.6**	**-0.7**	**9.0**

Operating profit (EBIT) excl. one-off items by service line, EUR million

	2013 4–6	2013 1–3	2012 10–12	2012 7–9	2012 4–6	2012 1–3
Managed Services	5.5	0.9	9.9	9.3	7.2	-2.1
Consulting and System Integration	9.6	5.1	18.5	13.6	11.3	12.7
Industry Products	16.9	18.6	18.6	14.2	12.6	17.1
Product Development Services	2.0	10.0	2.3	1.6	2.2	3.5
Steering Functions and Global Management	-2.8	-2.7	-5.1	-1.2	-4.7	-2.9
Operating profit (EBIT)	**31.3**	**32.0**	**44.2**	**37.5**	**28.6**	**28.4**

Operating margin (EBIT) excl. one-off items by service line, %

	2013 4–6	2013 1–3	2012 10–12	2012 7–9	2012 4–6	2012 1–3
Managed Services	4.3	0.7	7.8	8.3	5.9	-1.7
Consulting and System Integration	8.9	4.7	14.0	11.6	9.0	10.0
Industry Products	14.0	14.8	13.9	12.0	9.9	13.1
Product Development Services	2.6	11.6	2.7	2.1	2.6	4.1
Operating margin (EBIT)	**7.2**	**7.2**	**9.2**	**8.9**	**6.3**	**6.1**

Major shareholders on 30 June 2013

		Shares	%
1	Cevian Capital *)	11 073 614	15.1
2	Solidium Oy	7 415 418	10.1
3	Etera Mutual Pension Insurance Co.	3 000 000	4.1
4	Ilmarinen Mutual Pension Insurance Co.	2 645 862	3.6
5	OP-Pohjola Group Central Cooperative	2 239 575	3.1
6	Swedbank Robur fonder	2 071 905	2.8
7	Varma Mutual Pension Insurance Co.	1 543 488	2.1
8	The State Pension fund	823 000	1.1
9	OP funds	613 594	0.8
10	Pekka Viljakainen	593 376	0.8
		32 019 832	43.8
	Nominee registered	37 773 412	51.7
	Others	3 319 923	4.5
	Total	**73 113 167**	**100.0**

Based on the ownership records of Euroclear Finland Oy and Euroclear Sweden AB.

*) Based on the ownership records of Euroclear Finland Oy, Cevian Capital´s holding on 30 April 2013 was 11 073 614 shares, representing 15.1% of the shares and voting rights.

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Press conference for analysts and media will be held at Tieto's premises in Helsinki, address: Aku Korhosen tie 2, at 11.00 am EET (10.00 am CET, 9.00 am UK time). The results will be presented in English by Kimmo Alkio, President and CEO, and Lasse Heinonen, CFO.

The conference will be **webcasted** and published live on Tieto's website www.tieto.com/investors and there will be a possibility to present questions online. An on-demand video will be available after the conference.

Tieto publishes financial information in English, Finnish and Swedish. As from the first quarter of 2013, the full interim report with tables is available only in English and Finnish.

TIETO CORPORATION

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Tieto is the largest Nordic IT services company providing full life-cycle services for both private and public sectors. The company has global presence through its product engineering business and the global delivery centers. Tieto is committed to develop enterprises and society through IT by realizing new opportunities in customers' business transformation. At Tieto, we believe in professional development and results.

Founded 1968, headquartered in Helsinki, Finland and with approximately 15 000 experts, the company operates in over 20 countries with net sales at approximately EUR 1.8 billion. Tieto's shares are listed on NASDAQ OMX in Helsinki and Stockholm. Please visit www.tieto.com for more information.

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