

Q1 2015

Interim Report 1/2015

January–March

Accelerated investments to drive growth and renewal

- Modest growth in IT services – continued strong order intake
- In IT services, investments in offering development and the Managed Services automation programme affect first-half profitability
- Efficiency measures improve profitability in Product Development Services
- Full-year outlook remains unchanged

Key figures for the first quarter

- Organic growth in local currencies was -3.2%
- In IT services, organic growth in local currencies was 0.5%
- Order intake (Total Contract Value) amounted to EUR 430 (402) million and order backlog was EUR 1 819 (1 582) million
- First-quarter operating profit excl. one-off items amounted to EUR 30.7 (34.5) million, 8.4% (8.9) of sales
- Operating profit includes a negative currency effect of around EUR 4 million

	1-3/2015	1-3/2014
Net sales, EUR million	365.6	387.0
Change, %	-5.5	-8.7
Organic change in local currencies, %	-3.2	-1.4
Operating profit (EBITA), EUR million	14.0	34.4
Operating margin (EBITA), %	3.8	8.9
Operating profit (EBIT), EUR million	13.9	34.0
Operating margin (EBIT), %	3.8	8.8
Operating profit (EBIT) excl. one-off items ¹⁾ , EUR million	30.7	34.5
Operating margin (EBIT) excl. one-off items ¹⁾ , %	8.4	8.9
Profit after taxes, EUR million	9.1	24.6
EPS, EUR	0.12	0.34
Net cash flow from operations, EUR million	36.7	50.0
Return on equity, 12-month rolling, %	4.5	13.5
Return on capital employed, 12-month rolling, %	7.7	15.3
Investments, EUR million	11.6	13.4
Interest-bearing net debt, EUR million	-85.9	-20.5
Net debt/EBITDA	-0.6	-0.1
Book-to-bill	1.2	1.0
Order backlog	1 819	1 582
Personnel on 31 March	13 456	14 102

¹⁾ Excl. capital gains, goodwill impairment charges and restructuring costs

Full-year outlook for 2015 unchanged

Tieto expects its full-year operating profit (EBIT) excluding one-off items to increase from the previous year's level (EUR 150.2 million in 2014).

CEO's comment

Comment regarding the interim report by Kimmo Alkio, President and CEO:

“The current era of digitalization, which impacts all industries and societies worldwide, continues to provide attractive business opportunities for Tieto. With the aim of becoming the thought leader and advisor for enterprise customers in the Nordic countries, we have accelerated our investments in areas with promising future business opportunities.

Currently, we have increased our focus on digitalizing our own services. As an example, additional investments have been made in the Managed Services automation programme. This is expected to deliver a superior service experience to our customers and improved profitability levels towards the year end. In addition, we are continuing to actively invest in growth businesses such as Industrial Internet, Customer Experience Management, Healthcare and Cloud Computing. I'm pleased to see that our cloud business continued to grow in the first quarter at a year-on-year rate of over 100%.

While investments for future growth and competitiveness will somewhat strain our first-half profitability, the underlying business continues to develop favourably.”

Market development

Digital technologies are anticipated to disrupt clients' business and it will be critical for enterprises to have a digital strategy in place and the right competences to implement the transformation. The adoption of emerging technologies is driven by the changing behaviour of both consumers and corporate clients.

Customers continue to look for ways to stay competitive in their businesses and IT is becoming a strategic asset for enterprises. They continuously seek to differentiate themselves from their competitors with a superior customer experience, enabled by digital technologies and business models. Besides front-end solutions, digitalization affects application services as legacy applications will be modernized into more flexible cloud-based services. Strong industry and business insight, technology understanding and the ability to orchestrate digital customer experience ecosystems for clients are the requirements set for IT service providers.

The shift from traditional IT to emerging services, such as cloud computing, will continue. The industrial internet market will also start to build up in the Nordic countries. The decline in traditional services coupled with the challenging macroeconomic environment, especially in Finland, will affect overall market growth which is anticipated to remain modest in Tieto's main markets. The overall IT services market in the Nordic countries is expected to grow by around 2% in 2015. GDP growth in Tieto's Nordic core countries is forecasted to be less than 2%, with Sweden achieving the highest increase. Finland is expected to experience sluggish GDP growth, which might mean that IT market development will be somewhat slower than in the rest of the core markets.

Industry sector drivers

- In the **financial services** sector, customer experience and digitalization, both in the front end and back office operations, remain focus areas for both the banking and insurance sectors across all markets. At the same time, cost savings pressure drives demand for infrastructure and application modernization, introducing more advanced outsourcing models and accelerating cloud services growth. In the small and medium-sized business segment, the market is dominated by the “as a service” model and there is also growing interest in “business process as a service” (BPO) models.
- In the **manufacturing and forest** sector, digitalization of manufacturing is accelerating. While cost savings and efficiency improvements in the demand supply chain are important drivers for initiating new IT projects, enterprises increasingly seek to enhance their business through new services enabled by industrial internet solutions.
- In the **retail and logistics** sector, enterprises are investing in more advanced commerce solutions in order to achieve better consumer understanding, customer engagement, loyalty and increased revenue. This trend is creating higher demand for Customer Experience Management solutions for brick-and-mortar stores with online sales. Customers' ongoing cost-cutting programmes also create demand for outsourcing and infrastructure services that enable them to reduce costs.
- In the **public** sector, Tieto sees relatively healthy demand for data centre and capacity services in the Nordic countries. The digitalization of services and processes will continue with a focus on cost reductions and a citizen-centric approach. In Sweden, the outsourcing trend continues to be strong and there is robust demand for Tieto's cloud services. IT spending in Finland is anticipated to remain relatively stable.

- In the **healthcare and welfare** sector, digitalization of services and processes will continue in all Nordic countries. In Finland, deliveries related to national interoperability have continued and going forward, the focus will be on healthcare customers in the private sector, as they are required to connect to the archive by the end of the year.
- In the **energy** sector, the energy utilities market is opening up for cloud services as clients are seeking to reduce the cost of IT ownership due to lower electricity prices. The market for advanced metering infrastructure in Norway is progressing well. In the oil & gas market, investment levels have remained low due to reduced oil prices.
- In the **media sector**, customers are driving business transformation reflecting the increased deployment of digital services. Due to clients' tight budgets, investment decisions are driven by cost reductions. This is expected to result in new outsourcing opportunities in the mid-term.
- In the **telecom sector**, telecom operators remain under pressure and consolidation continues. IT transformation programmes are driven by the need to simplify legacy systems and cut costs as well as by the potential to create additional business value. IT service providers are experiencing aggressive competition in this sector.
- In the market for **telecom product development**, the share of software development in overall product design is increasing as the telecom and mobile area is going through many sweeping technology shifts. The communications infrastructure market will experience a significant change over the next few years, as the network infrastructure will gradually go through a transition to cloud solutions. At the same time, semiconductor vendors are increasing their share in the value chain by offering ready-made solutions to infrastructure and device manufacturers.

Tieto's growth drivers and investments

The company aims to be at the forefront of efficient delivery of high-quality services and pursue new service models enabled by the ongoing market change. Digitalization is currently the biggest change driver, providing opportunities for enterprises, including IT service providers, who play a critical role in this transformation. The company proactively renews and strengthens its service portfolio and competencies in order to be a preferred digitalization partner to customers.

Tieto will continue to invest in its high-growth services to grow faster than the market in the longer term:

- Customer Experience Management
- Lifecare – the leading Nordic industry-specific solution for the healthcare and welfare sector
- Industrial Internet
- Cloud services.

Tieto continues to also invest in other selected services with a view to enhancing scalability, e.g. in chosen offerings in Industry Products, and to industrializing its application management services to drive quality, speed, efficiency and customer experience. In the first quarter, investments in IT services rose by EUR 9 million, of which offering development represents around half and the rest is attributable mainly to costs related to the Managed Services automation programme.

Customer Experience Management

New services provide Tieto's customers mainly in the financial services and retail sectors with means to differentiate themselves from their competitors by excelling in digitally empowered experience and utilizing advanced user behaviour analysis. Enterprises such as traditional retailers and banks need to invest in ensuring customer loyalty and new revenue streams through services that provide a seamless customer experience across multiple channels. The Nordic market is expected to grow by an annual rate of around 20% in the coming years.

Customer Experience Management (CEM) is a segment with attractive double-digit growth potential for Tieto. The company has increased its investments in this area and recruited new talent to strengthen its thought leadership position in its home market. The focus has been, for example, on industry-specific concepts, which have led to prominent proof-of-concept cases with a number of customers.

Lifecare

The market for digitalization in the healthcare and welfare sector has remained strong. There is strong demand for new solutions helping to meet increasing service demand, partly related to the growth of the elderly population, coupled with the need to cut costs.

Lifecare is the leading Nordic industry-specific solution for the healthcare and welfare sector. In the first quarter, sales in local currencies saw growth of over 10%. At the same time, recruitments as well as offering development costs have increased. The number of Lifecare applications and interfaces launched by Tieto has risen to well over 30. Further investments will be made in the suite of applications, with a number of new launches being expected also in 2015 and 2016. Key applications are designed for areas such as national interoperability, mobile homecare and eServices for citizens. Currently, the focus in Finland is on national interoperability. Tieto's healthcare customers in the public sector have been connected to the national archive and preparations to connect healthcare customers in the private sector are ongoing.

Industrial Internet

Clients are starting to utilize new ways to connect devices, collect and handle data and distribute intelligence and autonomy among devices. Clients are able to increase efficiency and to create entirely new businesses based on intelligent automated services. In these services, smart connected devices can be used in monitoring, optimization and self-coordination of operations and in taking predictive action. Benefits include increased availability and utilization of assets, lower maintenance costs and improved customer service. Industrial internet can be utilized, for example, in remote diagnostics and operations, maintenance execution, supply chain management and service analytics. The market will also start to build up in the Nordic countries where it is expected to grow by an annual rate of around 50% (CAGR) to over EUR 5 billion by 2020.

In Industrial Internet, Tieto's growth-stage investment, the focus has been on the design of offerings for various sectors and productization of the connected devices platform. The aim is to help various industries, e.g. manufacturing, to take advantage of data being generated by machines and derive more value from their existing networks. Investments in offering development were accelerated in the first quarter. Tieto has won its new customer cases in multiple areas, including consulting and pilot cases in the manufacturing and telecom sectors. In 2015, the company will focus on creating scale and growth.

Cloud services

The market for transferring operations into scalable and flexible cloud environments is growing fast. Cloud-based technologies combined with global delivery and industrialized processes also enable enterprises to lower the total cost of ownership. Currently, cloud services are a standard part of new offers. The cloud market, including public and private cloud, is expected to grow annually by around 30% (CAGR 2013–2018) during the coming years.

Tieto provides a variety of services, including cloud-related consulting and integrations in addition to cloud-based capacity services. Private clouds are typically used as platforms for business critical core processes and are one of Tieto's focus areas. In Managed Services, Tieto Cloud Server and Tieto Productivity Cloud continue to see strong demand. First-quarter sales growth of cloud offerings totalled 132% compared with the corresponding quarter in 2014. Cloud offerings currently represent around 12% of Managed Services' sales.

Due to the greater demand for standardized environments, Tieto is able to utilize automation. The programme to increase automation in infrastructure management continues. As a result, services are becoming less labour-intensive and more scalable due to the 1-to-many service model. The service line continues to invest in user interface development and self-services as well as industry-specific offerings combining the company's technological competences with industry expertise, e.g. in the financial services, energy and healthcare sector.

Performance improvement in 2015

First-half profitability will be strained by several temporary contributors while the underlying operating margin is expected to improve in the second half.

Performance drivers for IT services in 2015 include

- sales growth – some new contracts won during the past quarters are expected to contribute to sales growth in the second half while the first-half sales will be affected by the expiry of a few large contracts
- service and competence renewal
 - offering development in selected areas – the increase in development costs is expected to be higher in the first half and balance out in the second half
 - automation in Managed Services – temporary overlapping costs related to the transition are anticipated to strain operating margin in the first half while automation is anticipated to improve margins in the second half
 - recruitments – Tieto has recruited new talent in new businesses, to large extent in offshore countries
 - cost savings – the positive impact related to redundancies, announced in January, is expected to materialize in the second half. In Managed Services, redundancies will be implemented mainly during the second quarter and in Consulting and System Integration, mainly in the third quarter.

- currency fluctuations.

The company seeks organic growth in its full-year sales of IT services in 2015 in line with the market, and the trend in IT services profitability is expected to remain favourable. Sales growth in the first half of 2015 may be slower than that expected for the full-year. Some new contracts won during the past quarters are expected to start contributing to sales growth in the second half while the first-half sales will be affected by the expiry of a few large contracts, especially in Manufacturing, Retail and Logistics.

To remain competitive, Tieto plans to continue to recruit new competences and retrain existing employees to match its needs in new service areas. New roles include data analysts, industry consultants, digital architects and technical specialists, among others. On the other hand, new services are less labour-intensive and automation via self-service channels will reduce the need for certain existing roles.

Related to the ongoing service and competence renewal, the company initiated personnel negotiations in January with a view to reducing 840 positions. Of the planned reductions 650 were anticipated to affect the Managed Services and 190 the Consulting and System Integration service lines. The negotiations in Finland ended on 16 March 2015 and it is estimated that Tieto will reduce 435 positions in Finland. Negotiations are continuing in other countries, mainly in Sweden and the Czech Republic. Tieto estimates that it will achieve annualized gross savings of around EUR 50 million related to the measures. Of this amount, around EUR 20 million is anticipated to materialize in 2015.

In IT services, the reductions initiated in 2014 and 2015 are anticipated to result in total gross cost savings of around EUR 30 million in 2015, of which around two thirds in the second half. However, the impact of savings on the IT services cost base will be partly offset by recruitments of new talent within growth areas. During 2015, the company expects to add several hundred positions in new competence areas, which will already be visible in the first half.

Related to the measures initiated in January 2015, Tieto will book restructuring costs of some EUR 35 million, of which EUR 16.8 million materialized in the first quarter.

The company continues to invest in its high-growth businesses and new service innovation, mainly in Industry Products and Consulting and System Integration. In the full year, the costs are expected to be at least at the previous year's level of around EUR 50 million. A greater proportion of offering development will be directed at high-growth offerings, including Customer Experience Management, Industrial Internet, Lifecare, cloud services and selected industry-specific products.

In the first half of 2015, currency fluctuations are anticipated to have a negative impact on sales and operating profit compared with the corresponding period in the previous year. The negative impact on sales is mainly attributable to the Swedish Krona. Operating profit is affected mainly by the Indian Rupee, and to a lesser extent by the Swedish Krona.

Capital expenditure (CAPEX) is anticipated to remain at the level of 3–4% of sales which is below the current depreciation level (EUR 63.4 million in 2014).

Performance drivers for Product Development Services in 2015 include

- sales decline related to the insourcing decision made by one key customer
- expansion of customer base and new customer wins
- adjustments in cost base, including personnel expenses as well as subcontracting, facility and other operational costs
- temporary commercial terms related to the insourcing decision made by one key customer which had a positive effect on first-quarter operating profit

In Product Development Services (PDS), sales are expected to decrease due to a business volume decline caused by the insourcing decision made by one key customer. Full-year sales related to this customer represented around 5% of Group sales in 2014. In the first quarter, these sales represented less than 2% of Group sales and the full impact will be visible as from the beginning of the second quarter.

PDS has adjusted its cost base in parallel with the reduction in business volumes and the planned 950 redundancies have been implemented by the early second quarter. Measures to lower the cost base include personnel reductions as well as reduced subcontracting, facility and other operational costs. The total net cash flow impact of the measures related to the insourcing is expected to be slightly positive during 2015, as the release of working capital will offset the negative impact of reduced business volumes.

Financial performance in January–March

First-quarter net sales amounted to EUR 365.6 (387.0) million, down by 5.5%. Organically, net sales in local currencies were down by 3.2%. The acquisitions added EUR 2 million to sales. Currency fluctuations had a negative impact of EUR 11 million on sales, mainly due to the weaker Swedish Krona. In IT services, net sales in local currencies were organically up by 0.5%.

First-quarter operating profit (EBIT) amounted to EUR 13.9 (34.0) million, representing a margin of 3.8% (8.8). Operating profit included EUR 16.8 million in restructuring costs. Operating profit excl. one-off items¹⁾ stood at EUR 30.7

(34.5) million, or 8.4% (8.9) of net sales. Currency changes had a negative impact of EUR 4 million on operating profit. The negative effect was mainly attributable to the Swedish Krona and Indian Rupee.

In IT services, profitability development was affected by Tieto's investments in growth businesses and costs related to automation in Managed Services. Costs, including offering development, mainly in Industry Products and Consulting, and System Integration, and temporary overlapping costs due to the transition related to the automation programme in Managed Services, increased by EUR 9 million in the first quarter. These costs are anticipated to remain higher in the first half and balance out in the second half. In the second half, some new contracts won during the past quarters are expected to contribute to sales growth and Managed Services automation is anticipated to improve margins. Further details are available in the section "Performance improvement in 2015".

The efficiency measures taken in 2014 had a positive effect of EUR 5 million on operating profit in IT services compared with the first quarter of 2014 while salary inflation strained personnel costs by close to EUR 5 million. In IT services, underlying development in personnel expenses (excl. cost savings and salary inflation) was slightly on the rise in the first quarter.

In PDS, efficiency measures were taken mainly to align the cost base to the reduction in business volumes.

Depreciation and amortization amounted to EUR 14.5 (15.4) million. Net financial expenses stood at EUR 1.7 (1.2) million in the first quarter. Net interest expenses were EUR 0.5 (0.8) million and net losses from foreign exchange transactions EUR 1.0 (0.1) million. Other financial income and expenses amounted to EUR -0.2 (-0.3) million.

Earnings per share (EPS) totalled EUR 0.12 (0.34). Earnings per share excluding one-off items¹⁾ amounted to EUR 0.31 (0.34).

¹⁾ Excl. capital gains, goodwill impairment charges and restructuring costs

Financial performance by service line

EUR million	Customer sales 1–3/2015	Customer sales 1–3/2014	Change, %	Operating profit 1–3/2015	Operating profit 1–3/2014
Managed Services	126	127	-1	-8.3	10.9
Consulting and System Integration	99	100	-1	8.2	11.1
Industry Products	94	100	-6	12.6	15.5
Product Development Services	47	60	-22	6.5	1.1
Support Functions and Global Management				-5.0	-4.6
Total	366	387	-6	13.9	34.0

Operating margin by service line

%	Operating margin 1–3/2015	Operating margin 1–3/2014	Operating margin excl. one-off items ¹⁾ 1–3/2015	Operating margin excl. one-off items ¹⁾ 1–3/2014
Managed Services	-6.6	8.5	3.6	8.4
Consulting and System Integration	8.3	11.1	10.8	11.2
Industry Products	13.3	15.4	13.4	15.4
Product Development Services	14.0	1.9	14.0	2.6
Total	3.8	8.8	8.4	8.9

¹⁾ Excl. capital gains, impairments and restructuring costs

Organic change in local currency by service line

EUR million	Customer sales adj. for acquisitions and currency 1–3/2015	Customer sales adj. for divestments 1–3/2014	Change, %
Managed Services	130	127	2
Consulting and System Integration	101	100	1
Industry Products	99	100	-1
IT services	329	327	1
Product Development Services	46	60	-24
Total	375	387	-3

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

In **Managed Services**, sales in local currencies grew organically by 2%. The market for projects to transform ICT infrastructure to cloud-based environments remained strong while the market for traditional services was down. Sales of cloud services amounted to EUR 15 million, up by 132% compared with the corresponding quarter in 2014. Operating profit excl. one-off items of EUR 12.9 million amounted to EUR 4.6 (10.7) million. The decline was mainly attributable to temporary transition costs related to the automation programme, which will continue in the second quarter. The service competitiveness and automation programme initiated in January is expected to improve margins as from the third quarter.

In **Consulting and System Integration**, good demand for industry consulting, ERP-based solutions and Customer Experience Management services continued while traditional application management experienced price erosion and reduced revenues. Underlying profitability remained stable despite higher offering development costs, which were higher mainly in Customer Experience Management. Offering development and recruitments related to service and competence renewal are somewhat accelerated in the first half of 2015. Some new contracts won during the past quarters are expected to contribute to sales growth later during 2015.

In **Industry Products**, sales in local currencies were slightly down. Demand in the oil and gas segment remained weak and sales continued to decrease. Sales of Financial Services were down due to continued challenges in Eastern Europe and delays in new projects. Development in the healthcare and welfare sector continued to be strong, with double-digit sales growth in local currencies. Despite efficiency improvement, operating profit was down due to an increase in offering development and negative currency effects. In the second quarter, the operating environment is anticipated to remain similar to that in the first quarter and the second half of the year is expected to be seasonally stronger.

In **Product Development Services (PDS)**, sales continued to decrease due to insourcing by one key customer. Sales for several key customers, including existing and new clients, were growing and PDS also had openings in new verticals, such as the automotive sector. The first-quarter underlying profit includes income related to certain temporary commercial terms while profitability in other businesses improved as well driven by efficiency measures. The contract with the key customer, which represented around 5% of Group sales in 2014, has ended. PDS has aligned its cost base in parallel with the reduction in business volumes, resulting in a healthy cost structure for the existing business. The normalized operating margin is expected to be below 10%.

Customer sales by industry group

EUR million	Customer sales 1–3/2015	Customer sales 1–3/2014	Change, %
Financial Services	84	83	0
Manufacturing, Retail and Logistics	78	79	-2
Public, Healthcare and Welfare	101	100	1
Telecom, Media and Energy	57	65	-12
IT services	319	327	-2
Product Development Services	47	60	-22
Total	366	387	-6

Organic change in local currency by industry group

EUR million	Customer sales adj. for acquisitions and currency 1-3/2015	Customer sales adj. for divestments 1-3/2014	Change, %
Financial Services	87	83	5
Manufacturing, Retail and Logistics	79	79	0
Public, Healthcare and Welfare	104	100	4
Telecom, Media and Energy	59	65	-9
IT services	329	327	1
Product Development Services	46	60	-24
Total	375	387	-3

In **Financial Services**, sales in local currencies grew organically by 5% mainly due to good development in Managed Services, with growth supported by a number of new agreements. In Industry Products, Financial Services sales were somewhat down due to challenges in Eastern Europe and delays in new projects.

In **Manufacturing, Retail and Logistics**, sales in local currencies remained at the previous year's level. The manufacturing sector saw healthy development due to several new agreements while the retail sector experienced negative development due to the expiry of some large contracts. Sales growth was also affected by some transition projects in Managed Services.

In **Public, Healthcare and Welfare**, sales in local currencies were organically up by 4%. Growth was mainly attributable to the healthcare and welfare sector, in which Industry Products saw double-digit sales growth. Growth has been driven, for example, by national interoperability and eServices in the welfare and education segments.

In **Telecom, Media and Energy**, sales in local currencies were down by 9%. Demand in the oil and gas segment is weak and IT investment levels are low. Volumes were lower also in the telecom, media and energy utilities segment in which expiring projects affect volumes, as few new projects are being started up.

Cash flow, financing and investments

First-quarter net cash flow from operations amounted to EUR 36.7 million (50.0), including the decrease of EUR 12.9 (2.7) million in net working capital. The decrease in net working capital was mainly attributable to an increase in restructuring provisions.

Payments for restructuring, which have a negative impact on cash flow, amounted to about EUR 10.8 (12.3) million in the first quarter. The restructuring-related cash flow in the second quarter is anticipated to rise to over EUR 15 million.

Tax payments were EUR 7.3 (6.3) million in the first quarter.

Capital expenditure totalled EUR 11.6 (13.4) million, of which paid EUR 11.6 (13.4) million. Capital expenditure represented 3.2% (3.5) of net sales and was mainly related to data centres.

The equity ratio was 39.6% (44.9). Gearing decreased to -21.5% (-4.3). Net debt totalled EUR -85.9 (-20.5) million, including EUR 109.4 million in interest-bearing debt, EUR 0.1 million in finance lease liabilities, EUR 9.7 million in finance lease receivables, EUR 0.9 million in other interest-bearing receivables and EUR 184.8 million in cash and cash equivalents.

The EUR 100 million bond matures in May 2019 and it carries a coupon of fixed annual interest of 2.875%. Interest-bearing long-term loans amounted to EUR 100.5 million at the end of March. Interest-bearing short-term loans amounted to EUR 8.9 million, mainly related to joint venture cash pool balances and an agreement for software licence financing. The syndicated revolving credit facility of EUR 100 million maturing in May 2016 was not in use at the end of March.

Order backlog

Total Contract Value (TCV) amounted to EUR 430 (402) million in the first quarter. The total value, including the part beyond the notice period, is included in the TCV. Book-to-bill stood at 1.2 (1.0). The order backlog rose to EUR 1 819 (1 582) million. The strong backlog is expected to start contributing to growth later during 2015. During the current year, 43% (49) of the backlog is expected to be invoiced.

Major agreements in January–March

During the first quarter, Tieto has signed a solid number of new agreements with customers across all the industry groups. However, according to the terms and conditions of these agreements, Tieto is not able to disclose most of the contracts.

In March, Tieto and Etera signed a three-year contract on infrastructure services. The contract value is over EUR 5 million.

In March, Tieto agreed on a contract to become the turnkey IT supplier for Region Skåne, one of Sweden's largest regional councils. The deal is valid for four years and includes an extension option for another eight years. The four-year contract will enter into force on 1 October 2015 and is valued at EUR 70 million. Tieto will be responsible for the operation, maintenance, coordination and development of user-related IT in order to supply Region Skåne's 32 000 employees with modern services and new technology.

In March, ECHA awarded to Tieto a service contract for the provision of technical IT consulting in the area of Enterprise Content Management Services. The contract was awarded within the Hansel Framework Agreement for IT Consulting Services and is valid until the end of February 2017. The estimated value of the ECHA contract is up to a maximum of EUR 3 million.

Personnel

The number of full-time employees amounted to 13 456 (14 102) at the end of March. The number of full-time employees in the global delivery centres totalled 6 124 (6 407), or 45.5% (45.4) of all personnel. In Product Development Services, the offshore ratio was 57.5% (60.4). In IT services, the offshore ratio continued to rise and stood at 43.8% (41.4) at the end of March.

In the first quarter, the number of full-time employees decreased by a net amount of around 260. Net recruitments added over 200 employees while job cuts reduced the number of personnel by around 500. The 12-month rolling employee turnover stood at 10.8% (9.3) at the end of March. The average number of full-time employees was 13 580 (14 196).

Salary inflation was over 3% and is expected to remain at that level on average throughout 2015. In offshore countries, salary inflation is clearly above the average. Markets like India may see double-digit salary hikes.

Shares and share-based incentives

Between 11 November and 31 December 2014, a total of 26 663 new Tieto Corporation shares were subscribed for with the company's stock options 2009B and a total of 10 401 new shares with stock options 2009C. The shares subscribed for were registered in the Trade Register on 20 January 2015 and the number of Tieto shares increased to 73 712 967.

Related to the company's share-based incentive allocations, there were changes in the number of Tieto's own shares during the first quarter. On 31 March, the company held a total of 465 084 own shares, representing 0.6% of the total number of shares and voting rights. The number of outstanding shares, excluding the treasury shares, was 73 247 883 at the end of the period.

In February, the Board of Directors approved two new share-based incentive plans for key employees, a Performance Share Plan 2015 and a Restricted Share Plan 2015. Tieto nominates approximately 150 key employees, including Tieto's Leadership Team, to the plans. The Board of Directors anticipates that share rewards to be delivered to the participants under the plan will consist of shares to be acquired from the market. Thus, the incentive plan will have no dilutive effect.

Annual General Meeting

The Annual General Meeting 2015 held on 19 March decided to distribute a dividend of EUR 1.30 per share (ordinary dividend of EUR 1.00 and additional dividend of EUR 0.30). The meeting re-elected the Board's current members Kurt Jofs, Eva Lindqvist, Sari Pajari, Markku Pohjola, Endre Rangnes, Teuvo Salminen and Jonas Synnergren. Lars Wollung was elected as a new member.

Leadership Team

On 20 March, Tieto announced that Kolbjørn Haarr, Executive Vice President, Head of Telecom, Media and Energy and New Markets, has decided to pursue opportunities outside Tieto. In addition to his current role, Lasse Heinonen, Executive Vice President, CFO, was appointed as acting Head of Telecom, Media and Energy as well as New Markets as from 20 March.

Events after the period

On 15 April, Tieto announced that the number of the company's shares increased to 73 926 163 based on subscriptions made with the stock options 2009B and 2009C.

On 15 April, Tieto received an announcement pursuant to the Securities Market Act. The holding of Cevian Capital fell below the 15% threshold due to the increase in the number of Tieto's shares. The shares held by Cevian Capital remained unchanged at 11 073 614, corresponding to 14.98% of shares.

Near-term risks and uncertainties

Slow growth in Europe might lead to weakness in the IT services market as well. As Tieto's top 10 customers account for 33% of its net sales, the company's development is relatively sensitive to changes in the demand from large customers.

Consolidated net sales and profitability are sensitive to volatility in exchange rates, especially that of the Swedish Krona and Indian Rupee. Further details on management of currency risks are provided in the Financial Statements.

The major transformation of the IT industry may result in continuous actions to renew competences. This change coupled with the offshoring trend may drive continued restructuring within companies as well as the need to recruit new competences. That may lead to temporarily overlapping personnel costs and uncertainty among personnel.

As is typical of the industry, the large size of individual deals may have a strong effect on growth, and price pressure might lead to weak profitability. Additionally, new technologies, such as cloud computing, drive customer demand

towards standardized and less labour-intensive solutions. All these changes might result in the need for continuous restructuring.

The risks related to Russia are limited as the share of sales in Russia is less than 1%. However, if the crisis were to affect the Finnish economy, it would have an indirect impact on the IT services market in Finland.

As is typical of Product Development Services, visibility is weak due to the short order backlog. The insourcing decision made by one large customer is anticipated to have a negative impact on the company in 2015. However, PDS has adjusted its cost base to lower volumes, which will to a large extent compensate for this impact. Overall, the growth in insourcing in the telecom sector and the challenging business environment might affect the company also going forward.

Typical risks faced by the IT service industry involve additional technology licence fees, the quality of deliveries and related project overruns. The transition related to the Managed Services automation programme, increasing use of global delivery centres as well as the ongoing organizational change pose risks of project losses and penalties.

Companies around the world are facing new risks arising from tax audits. Should the macroeconomic environment remain weak, some countries may introduce new regulation. Additionally, changes in the tax authorities' interpretations could have unfavourable impacts on tax-payers.

Full-year outlook for 2015 unchanged

Tieto expects its full-year operating profit (EBIT) excluding one-off items to increase from the previous year's level (EUR 150.2 million in 2014).

Auditing

The figures in this report are unaudited.

Financial calendar

22 July	Interim report 2/2015 (8.00 am EET)
22 October	Interim report 3/2015 (8.00 am EET)

Accounting policies 2015

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 2014. The accounting policies, standards, interpretations and amendments are described in the annual financial statements. There are no changes with any material impact on the Group's financial statements.

Key figures

	2015 1-3	2014 1-3	2014 1-12
Earnings per share, EUR			
Basic	0.12	0.34	0.48
Diluted	0.12	0.34	0.48
Equity per share, EUR	5.45	6.56	6.44
Return on equity, 12-month rolling, %	4.5	13.5	7.1
Return on capital employed, 12-month rolling, %	7.7	15.3	9.8
Equity ratio, %	39.6	44.9	47.8
Interest-bearing net debt, EUR million	-85.9	-20.5	-59.2
Gearing, %	-21.5	-4.3	-12.6
Investments, EUR million	11.6	13.4	43.5

Number of shares

	2015 1-3	2014 1-3	2014 1-12
Outstanding shares, end of period			
Basic	73 247 883	72 632 648	73 165 084
Diluted	73 463 736	73 087 532	73 418 924
Outstanding shares, average			
Basic	73 215 497	72 613 122	72 944 228
Diluted	73 451 489	73 042 223	73 221 816
Company's possession of its own shares			
End of period	465 084	510 819	510 819
Average	489 646	528 372	515 147

Income statement, EUR million

	2015 1-3	2014 1-3	Change %	2014 1-12
Net sales	365.6	387.0	-6	1 522.5
Other operating income	5.0	3.8	32	18.1
Employee benefit expenses	225.1	217.4	4	846.0
Depreciation, amortization and impairment charges	14.5	15.4	-6	104.0
Other operating expenses	118.3	125.1	-5	534.8
Share of profit from investments accounted for using the equity method	1.2	1.1	9	5.3
Operating profit (EBIT)	13.9	34.0	-59	61.1
Interest and other financial income	0.4	0.2	100	1.2
Interest and other financial expenses	-1.1	-1.3	-15	-4.9
Net exchange gains/losses	-1.0	-0.1	-	-0.8
Profit before taxes	12.2	32.8	-63	56.6
Income taxes	-3.1	-8.2	-62	-21.6
Net profit for the period	9.1	24.6	-63	35.0
Net profit for the period attributable to				
Shareholders of the Parent company	9.1	24.6	-63	35.0
Non-controlling interest	0.0	0.0	-	0.0
	9.1	24.6	-63	35.0
Earnings per share attributable to the shareholders of the Parent company, EUR				
Basic	0.12	0.34	-65	0.48
Diluted	0.12	0.34	-65	0.48
Statement of comprehensive income, EUR million				
Net profit for the period	9.1	24.6	-63	35.0
Items that may be reclassified subsequently to profit or loss				
Translation differences	11.3	-0.8	-	-10.1
Cash flow hedges (net of tax)	0.4	0.5	-20	1.4
Items that will not be reclassified subsequently to profit or loss				
Actuarial gain/loss on post-employment benefit obligations (net of tax)	0.0	0.0	-	-10.3
Total comprehensive income	20.8	24.3	-14	16.0
Total comprehensive income attributable to				
Shareholders of the Parent company	20.8	24.3	-14	16.0
Non-controlling interest	0.0	0.0	-	0.0
	20.8	24.3	-14	16.0

Balance sheet, EUR million

	2015 31 Mar	2014 31 Mar	Change %	2014 31 Dec
Goodwill	327.0	371.1	-12	323.7
Other intangible assets	32.3	43.2	-25	32.8
Property, plant and equipment	80.4	93.2	-14	82.2
Investments accounted for using the equity method	15.1	16.7	-10	19.3
Deferred tax assets	29.2	25.8	13	27.9
Finance lease receivables	5.1	2.6	96	5.4
Other interest-bearing receivables	0.7	1.4	-50	0.9
Available-for-sale financial assets	0.7	0.7	0	0.7
Total non-current assets	490.5	554.7	-12	492.9
Trade and other receivables	387.6	415.8	-7	371.2
Pension benefit assets	-	6.5	-	-
Finance lease receivables	4.7	3.1	52	4.7
Other interest-bearing receivables	0.2	0.2	0	0.3
Current income tax receivables	2.2	11.9	-82	1.8
Cash and cash equivalents	184.8	136.3	36	160.6
Total current assets	579.5	573.8	1	538.6
Total assets	1 070.0	1 128.5	-5	1 031.5
Share capital, share issue premiums and other reserves	120.9	122.0	-1	120.5
Share issue based on stock options	2.4	2.8	-14	0.5
Retained earnings	276.1	351.3	-21	350.1
Parent shareholders' equity	399.4	476.1	-16	471.1
Non-controlling interest	0.1	0.1	0	0.1
Total equity	399.5	476.2	-16	471.2
Loans	100.5	102.1	-2	100.8
Deferred tax liabilities	23.1	25.4	-9	22.9
Provisions	14.8	9.1	63	15.2
Pension obligations	23.4	19.2	22	24.0
Other non-current liabilities	1.9	2.8	-32	2.1
Total non-current liabilities	163.7	158.6	3	165.0
Trade and other payables	451.8	429.9	5	339.9
Current income tax liabilities	9.2	9.2	0	12.3
Provisions	36.7	33.6	9	31.3
Loans	9.1	21.0	-57	11.8
Total current liabilities	506.8	493.7	3	395.3
Total equity and liabilities	1 070.0	1 128.5	-5	1 031.5

Net working capital in the balance sheet, EUR million

	2015 31 Mar	2014 31 Mar	Change %	2014 31 Dec
Accounts receivable	274.7	291.1	-6	279.9
Other working capital receivables	112.4	114.8	-2	87.1
Working capital receivables included in assets	387.1	405.9	-5	367.0
Accounts payable	82.3	74.1	11	91.0
Personnel related accruals	156.5	148.2	6	140.8
Provisions	51.5	42.7	21	46.5
Other working capital liabilities	116.4	141.5	-18	107.4
Working capital liabilities included in current liabilities	406.7	406.5	0	385.7
Net working capital in the balance sheet	-19.6	-0.6	-	-18.7

Cash flow, EUR million

	2015 1-3	2014 1-3	2014 1-12
Cash flow from operations			
Net profit	9.1	24.6	35.0
Adjustments			
Depreciation, amortization and impairment charges	14.5	15.4	104.0
Share-based payments	0.1	0.0	0.1
Profit/loss on sale of fixed assets and shares	0.0	-0.2	-0.4
Share of profit from investments accounted for using the equity method	-1.2	-1.1	-5.3
Other adjustments	-1.1	-0.1	-2.1
Net financial expenses	1.7	1.2	4.5
Income taxes	3.1	8.2	21.6
Change in net working capital	12.9	2.7	17.4
Cash generated from operations	39.1	50.7	174.8
Net financial expenses paid	-0.5	-0.3	-5.8
Dividends received from investments accounted for using the equity method	5.4	5.9	5.9
Income taxes paid	-7.3	-6.3	-7.0
Net cash flow from operations	36.7	50.0	167.9
Cash flow from investing activities			
Acquisition of Group companies and business operations, net of cash acquired	-	-	3.7
Capital expenditures	-11.6	-13.4	-43.0
Disposal of Group companies and business operations, net of cash disposed	-	0.6	3.3
Sales of fixed assets	0.1	0.0	0.6
Change in loan receivables	0.5	0.7	-3.5
Net cash used in investing activities	-11.0	-12.1	-38.9
Cash flow from financing activities			
Dividends paid	-	-	-65.4
Exercise of stock options	0.5	0.1	5.4
Payments of finance lease liabilities	-0.2	-0.9	-3.7
Change in interest-bearing liabilities	-2.9	-13.6	-21.1
Net cash used in financing activities	-2.6	-14.4	-84.8
Change in cash and cash equivalents	23.1	23.5	44.2
Cash and cash equivalents at the beginning of period	160.6	114.1	114.1
Foreign exchange differences	1.1	-1.3	2.3
Change in cash and cash equivalents	23.1	23.5	44.2
Cash and cash equivalents at the end of period	184.8	136.3	160.6

Statement of changes in shareholders' equity, EUR million

	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 2013	76.6	45.7	0.1	-11.6	-26.6	-1.7	3.1	428.5	514.1	0.1	514.2
Comprehensive income											
Net profit for the period								24.6	24.6	0.0	24.6
Other comprehensive income											
Actuarial gain on post-employment benefit obligations (net of tax)								0.0	0.0		0.0
Translation difference		-0.3			-2.2			1.7	-0.8		-0.8
Cash flow hedges (net of tax)						0.5			0.5		0.5
Total comprehensive income		-0.3			-2.2	0.5		26.3	24.3	0.0	24.3
Transactions with owners											
Share-based payments recognized against equity								0.3	0.3		0.3
Dividend								-65.4	-65.4		-65.4
Share subscriptions based on stock options			-0.1				0.1		0.0		0.0
Share subscriptions based on stock options, not yet registered			2.8						2.8		2.8
Non-controlling interest											0.0
Total transactions with owners	0.0	0.0	2.7				0.1	-65.1	-62.3	0.0	-62.3
Impact on investments accounted for using the equity method								0.0	0.0		0.0
At 31 Mar 2014	76.6	45.4	2.8	-11.6	-28.8	-1.2	3.2	389.7	476.1	0.1	476.2

	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 2014	76.6	43.9	0.5	-11.6	-51.0	-0.3	8.5	404.5	471.1	0.1	471.2
Comprehensive income											
Net profit for the period								9.1	9.1	0.0	9.1
Other comprehensive income											
Actuarial loss on post-employment benefit obligations (net of tax)									0.0		0.0
Translation difference		0.4			10.4			0.5	11.3		11.3
Cash flow hedges (net of tax)						0.4			0.4		0.4
Total comprehensive income		0.4			10.4	0.4		9.6	20.8	0.0	20.8
Transactions with owners											
Share-based payments recognized against equity								0.3	0.3		0.3
Dividend								-95.2	-95.2		-95.2
Share subscriptions based on stock options			-0.5				0.5		0.0		0.0
Share subscriptions based on stock options, not yet registered			2.4						2.4		2.4
Non-controlling interest											0.0
Total transactions with owners	0.0	0.0	1.9				0.5	-94.9	-92.5	0.0	-92.5
Impact on investments accounted for using the equity method											
								0.0	0.0		0.0
At 31 Mar 2015	76.6	44.3	2.4	-11.6	-40.6	0.1	9.0	319.2	399.4	0.1	399.5

Segment information

Customer sales by service line, EUR million

	2015 1-3	2014 1-3	Change %	2014 1-12
Managed Services	126	127	-1	512
Consulting and System Integration	99	100	-1	387
Industry Products	94	100	-6	395
Product Development Services	47	60	-22	229
Group total	366	387	-6	1 522

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

	2015 1-3	Change %	Share %	2014 1-3	Share %	2014 1-12
Finland	170	-6	47	181	47	711
Sweden	140	0	38	140	36	548
Other	56	-16	15	66	17	264
Group total	366	-6	100	387	100	1 522

In Finland, IT services sales grew by 2% in 2015.

In Sweden, growth in local currencies was 6%. IT services grew by 2% in local currencies.

In Norway, growth in local currencies was -1%.

Customer sales by industry group, EUR million

	2015 1-3	2014 1-3	Change %	2014 1-12
Financial Services	84	83	0	335
Manufacturing, Retail and Logistics	78	79	-2	311
Public, Healthcare and Welfare	101	100	1	410
Telecom, Media and Energy	57	65	-12	238
Product Development Services	47	60	-22	229
Group total	366	387	-6	1 522

Customer sales to the telecom sector were EUR 80 (97) million during January-March.

Revenues derived from any single external customer during January-March 2015 or 2014 did not exceed the 10% level of the total net sales of the Group.

Operating profit (EBIT) by service line, EUR million

	2015	2014	Change	2014
	1-3	1-3	%	1-12
Managed Services	-8.3	10.9	-176.8	37.6
Consulting and System Integration	8.2	11.1	-25.9	34.9
Industry Products	12.6	15.5	-18.6	68.1
Product Development Services	6.5	1.1	470.9	-42.9
Support Functions and Global Management	-5.0	-4.6	-8.4	-36.5
Operating profit (EBIT)	13.9	34.0	-59.0	61.1

Operating margin (EBIT) by service line, %

	2015	2014	Change	2014
	1-3	1-3		1-12
Managed Services	-6.6	8.5	-15.1	7.3
Consulting and System Integration	8.3	11.1	-2.8	9.0
Industry Products	13.3	15.4	-2.1	17.3
Product Development Services	14.0	1.9	12.1	-18.7
Operating margin (EBIT)	3.8	8.8	-5.0	4.0

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

	2015	2014	Change	2014
	1-3	1-3	%	1-12
Managed Services	4.6	10.7	-57.0	38.4
Consulting and System Integration	10.8	11.2	-3.8	38.3
Industry Products	12.7	15.4	-17.4	70.3
Product Development Services	6.5	1.6	316.5	21.7
Support Functions and Global Management	-3.9	-4.4	12.6	-18.5
Operating profit (EBIT)	30.7	34.5	-11.0	150.2

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

	2015	2014	Change	2014
	1-3	1-3		1-12
Managed Services	3.6	8.4	-4.7	7.5
Consulting and System Integration	10.8	11.2	-0.4	9.9
Industry Products	13.4	15.4	-1.9	17.8
Product Development Services	14.0	2.6	11.4	9.5
Operating margin (EBIT)	8.4	8.9	-0.5	9.9

Personnel by service line

	End of period			Average			
	2015	Change	Share	2014	2014	2015	2014
	1-3	%	%	1-3	1-12	1-3	1-3
Managed Services	3 359	9	25	3 085	3 321	3 351	3 110
Consulting and System Integration	4 117	6	31	3 895	3 953	4 081	3 911
Industry Products	3 150	7	23	2 950	3 181	3 148	2 939
Product Development Services	1 671	-45	12	3 027	2 114	1 842	3 091
Service Lines total	12 297	-5	91	12 957	12 568	12 422	13 052
Industry Groups	471	16	3	406	415	462	407
Support Functions and Global Management	688	-7	5	740	738	696	737
Group total	13 456	-5	100	14 102	13 720	13 580	14 196

Personnel by country

	End of period			Average			
	2015	Change	Share	2014	2014	2015	2014
	1-3	%	%	1-3	1-12	1-3	1-3
Finland	4 095	-6	30	4 350	4 122	4 117	4 370
Sweden	2 524	-3	19	2 611	2 548	2 538	2 650
Czech Republic	2 084	8	15	1 934	2 077	2 088	1 943
India	2 063	29	15	1 602	1 979	2 016	1 595
China	327	-64	2	898	379	349	925
Latvia	699	1	5	694	680	694	691
Poland	457	-33	3	678	507	478	688
Norway	419	-5	3	439	417	421	439
Philippines	66	-72	0	235	227	129	235
Lithuania	124	-5	1	130	122	123	129
Other	598	12	4	532	662	627	531
Group total	13 456	-5	100	14 102	13 720	13 580	14 196
Onshore countries	7 332	-5	54	7 695	7 386	7 370	7 753
Offshore countries	6 124	-4	46	6 407	6 334	6 210	6 443
Group total	13 456	-5	100	14 102	13 720	13 580	14 196

Non-current assets by country, EUR million

	2015 31 Mar	2014 31 Mar	Change %	2014 31 Dec
Finland	82.2	98.8	-17	84.6
Sweden	24.9	29.5	-16	24.6
Other	5.5	8.0	-31	5.8
Total non-current assets	112.6	136.3	-17	115.0

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

	2015	2014	Change	2014
	1-3	1-3	%	1-12
Managed Services	11.9	12.4	-4	50.8
Consulting and System Integration	0.2	0.2	26	0.7
Industry Products	0.1	0.1	34	0.4
Product Development Services	0.1	0.1	-39	1.0
Support Functions and Global Management	2.0	2.2	-11	10.7
Group total	14.3	15.0	-4	63.5

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

	2015	2014	Change	2014
	1-3	1-3	%	1-12
Managed Services	-	0.2	-	0.2
Consulting and System Integration	0.0	0.1	-53	0.5
Industry Products	0.1	0.1	-4	0.3
Product Development Services	-	-	-	-
Support Functions and Global Management	-	-	-	-
Group total	0.1	0.4	-69	1.0

Impairment losses by service line, EUR million

	2015	2014	Change	2014
	1-3	1-3	%	1-12
Managed Services	-	-	-	-
Consulting and System Integration	-	-	-	-
Industry Products	-	-	-	-
Product Development Services	-	-	-	39.6
Support Functions and Global Management	-	-	-	-
Group total	-	-	-	39.6

Commitments and contingencies, EUR million

	2015 31 Mar	2014 31 Dec
For Tieto obligations		
Guarantees		
Performance guarantees	27.7	27.3
Lease guarantees	10.0	9.9
Other	1.4	0.2
Other Tieto obligations		
Rent commitments due in one year	43.1	44.7
Rent commitments due in 1–5 years	93.6	100.3
Rent commitments due after 5 years	9.3	11.3
Operating lease commitments due in one year	5.7	6.5
Operating lease commitments due in 1–5 years	7.5	8.6
Operating lease commitments due after 5 years	0.7	0.7
Commitments to purchase assets	10.9	12.6
On behalf of joint ventures	-	-
On behalf of others		
Guarantees	0.6	0.7

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.

	2015 31 Mar	2014 31 Dec
Foreign exchange forward contracts	159.3	160.1
Forward contracts outside hedge accounting	118.1	115.7
Forward contracts within hedge accounting	41.4	44.4
Electricity price futures contracts	0.7	0.8

Fair values of derivatives

The net fair values of derivative financial instruments at the balance sheet date	2015 31 Mar	2014 31 Dec
Foreign exchange forward contracts	2.4	-0.4
Electricity price futures contracts	-0.1	-0.1

Derivatives are used for economic hedging purposes only.

Gross positive fair values of derivatives	2015 31 Mar	2014 31 Dec
Foreign exchange forward contracts	2.9	1.4
Forward contracts outside hedge accounting	2.8	1.4
Forward contracts within hedge accounting ¹⁾	0.1	-
Electricity price futures contracts	-	-

Gross negative fair values of derivatives	2015 31 Mar	2014 31 Dec
Foreign exchange forward contracts	-0.6	-1.8
Forward contracts outside hedge accounting	-0.5	-1.4
Forward contracts within hedge accounting ¹⁾	-0.1	-0.4
Electricity price futures contracts	-0.1	-0.1

¹⁾ Forward contracts within hedge accounting (net)	0.0	-0.4
The amount recognized in equity	0.0	-0.4
Net periodic interest rate difference recognized in interest income/expenses	-	-

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

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses, recognized in the hedging reserve in equity (note Other reserves) on forward foreign exchange contracts as of 31 March 2015 amounted to net EUR 0.1 million (EUR -0.4 in 31 December 2014). These are recognized in the income statement in the current period or periods during which the hedged forecast transactions affect the income statement. This is usually within 12 months of the end of the reporting period. The hedged cash flows are expected to expire monthly within 12 months.

The efficient portion of cash flow hedges recognized in net sales at 31 March 2015 amounted to a gain of EUR 0.2 million (EUR 0.5 million in 31 December 2014) and a loss of EUR 0.2 million (EUR 2.5 million in 31 December 2014) including the interest rate difference.

The inefficient portion recognized in the other operating income that arises from cash flow hedges amounts to a gain of EUR 0.0 million at 31 March 2015 (EUR 0.0 million gain in 31 December 2014). The inefficient portion recognized in other operating expenses that arises from cash flow hedges amounts to a loss of EUR 0.0 million at 31 March 2015 (EUR 0.3 million in 31 December 2014).

Other reserves

Cash flow hedges

EUR million	Hedging reserve
Balance at 1 Jan 2014	-1.7
Fair value gains in year	2.0
Fair value losses in year	-0.3
Tax on fair value gains	0.0
Tax on fair value losses	-0.3
Balance at 31 Dec 2014	-0.3
Balance at 1 Jan 2015	-0.3
Fair value gains in year	0.5
Fair value losses in year	-0.1
Tax on fair value gains	0.0
Tax on fair value losses	-0.1
Balance at 31 Mar 2015	0.0

Fair value measurement of financial assets and liabilities**EUR million**

31 Mar 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	2.9	-	2.9
Available-for-sale investments	-	-	0.7	0.7
Financial liabilities at fair value through profit or loss				
Derivatives	-	0.7	-	0.7

EUR million

31 Dec 2014	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	1.4	-	1.4
Available-for-sale investments	-	-	0.7	0.7
Financial liabilities at fair value through profit or loss				
Derivatives	-	1.9	-	1.9

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

	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Earnings per share, EUR					
Basic	0.12	0.09	-0.17	0.23	0.34
Diluted	0.12	0.09	-0.17	0.23	0.34
Equity per share, EUR	5.45	6.44	6.52	6.70	6.56
Return on equity, 12-month rolling, %	4.5	7.1	8.7	15.3	13.5
Return on capital employed, 12-month rolling, %	7.7	9.8	10.4	14.8	15.3
Equity ratio, %	39.6	47.8	51.4	48.7	44.9
Interest-bearing net debt, EUR million	-85.9	-59.2	25.7	30.3	-20.5
Gearing, %	-21.5	-12.6	5.4	6.2	-4.3
Investments, EUR million	11.6	12.9	10.1	7.1	13.4

Income statement, EUR million

	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Net sales	365.6	402.9	346.2	386.4	387.0
Other operating income	5.0	7.0	3.5	3.8	3.8
Employee benefit expenses	225.1	226.5	182.8	219.3	217.4
Depreciation, amortization and impairment charges	14.5	18.0	55.0	15.6	15.4
Other operating expenses	118.3	157.2	117.4	135.1	125.1
Share of profit from investments accounted for using the equity method	1.2	1.3	1.6	1.3	1.1
Operating profit (EBIT)	13.9	9.5	-3.9	21.5	34.0
Financial income and expenses	-1.7	-0.9	-1.4	-1.0	-1.2
Profit before taxes	12.2	8.6	-5.3	20.5	32.8
Income taxes	-3.1	-1.9	-7.5	-4.0	-8.2
Net profit for the period	9.1	6.7	-12.8	16.5	24.6

Balance sheet, EUR million

	2015 31 Mar	2014 31 Dec	2014 30 Sep	2014 30 Jun	2014 31 Mar
Goodwill	327.0	323.7	329.5	367.5	371.1
Other intangible assets	32.3	32.8	39.5	41.3	43.2
Property, plant and equipment	80.4	82.2	82.2	85.4	93.2
Investments accounted for using the equity method	15.1	19.3	19.7	18.1	16.7
Other non-current assets	35.7	34.9	31.2	33.9	30.5
Total non-current assets	490.5	492.9	502.1	546.2	554.7
Trade receivables and other current assets	394.7	378.0	390.4	411.7	437.5
Cash and cash equivalents	184.8	160.6	84.4	99.6	136.3
Total current assets	579.5	538.6	474.8	511.3	573.8
Total assets	1 070.0	1 031.5	976.9	1 057.5	1 128.5
Total equity	399.5	471.2	477.0	489.8	476.2
Non-current loans	100.5	100.8	101.7	101.6	102.1
Other non-current liabilities	63.2	64.2	56.8	54.3	56.5
Total non-current liabilities	163.7	165.0	158.5	155.9	158.6
Trade payables and other current liabilities	461.0	352.2	297.4	346.6	439.1
Provisions	36.7	31.3	23.5	25.1	33.6
Current loans	9.1	11.8	20.5	40.1	21.0
Total current liabilities	506.8	395.3	341.4	411.8	493.7
Total equity and liabilities	1 070.0	1 031.5	976.9	1 057.5	1 128.5

Cash flow, EUR million

	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Cash flow from operations					
Net profit	9.1	6.7	-12.8	16.5	24.6
Adjustments	17.1	18.3	62.2	18.5	23.4
Change in net working capital	12.9	66.0	-32.7	-18.6	2.7
Cash generated from operations	39.1	91.0	16.7	16.4	50.7
Net financial expenses paid	-0.5	-2.3	-0.1	-3.1	-0.3
Dividends received from investments accounted for using the equity method	5.4	-	-	-	5.9
Income taxes paid	-7.3	1.5	-5.5	3.3	-6.3
Net cash flow from operations	36.7	90.2	11.1	16.6	50.0
Net cash used in investing activities	-11.0	-8.4	-7.1	-11.3	-12.1
Net cash used in financing activities	-2.6	-8.6	-19.1	-42.7	-14.4
Change in cash and cash equivalents	23.1	73.2	-15.1	-37.4	23.5
Cash and cash equivalents at the beginning of period	160.6	84.4	99.6	136.3	114.1
Foreign exchange differences	1.1	3.0	-0.1	0.7	-1.3
Change in cash and cash equivalents	23.1	73.2	-15.1	-37.4	23.5
Cash and cash equivalents at the end of period	184.8	160.6	84.4	99.6	136.3

QUARTERLY FIGURES BY SEGMENTS

Customer sales by service line, EUR million

	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Managed Services	126	131	121	132	127
Consulting and System Integration	99	107	84	97	100
Industry Products	94	107	91	97	100
Product Development Services	47	58	51	60	60
Group total	366	403	346	386	387

Customer sales by industry group, EUR million

	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Financial Services	84	90	77	84	83
Manufacturing, Retail and Logistics	78	82	73	78	79
Public, Healthcare and Welfare	101	115	91	104	100
Telecom, Media and Energy	57	59	54	60	65
Product Development Services	47	58	51	60	60
Group total	366	403	346	386	387

Operating profit (EBIT) by service line, EUR million

	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Managed Services	-8.3	8.2	11.0	7.6	10.9
Consulting and System Integration	8.2	10.4	7.2	6.1	11.1
Industry Products	12.6	17.4	20.3	15.0	15.5
Product Development Services	6.5	-4.4	-37.4	-2.3	1.1
Support Functions and Global Management	-5.0	-22.1	-5.0	-4.8	-4.6
Operating profit (EBIT)	13.9	9.5	-3.9	21.5	34.0

Operating margin (EBIT) by service line, %

	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Managed Services	-6.6	6.2	9.0	5.8	8.5
Consulting and System Integration	8.3	9.8	8.6	6.3	11.1
Industry Products	13.3	16.3	22.4	15.3	15.4
Product Development Services	14.0	-7.5	-73.0	-3.8	1.9
Operating margin (EBIT)	3.8	2.4	-1.1	5.6	8.8

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

	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Managed Services	4.6	9.0	11.1	7.6	10.7
Consulting and System Integration	10.8	10.2	9.7	7.2	11.2
Industry Products	12.7	19.6	20.2	15.2	15.4
Product Development Services	6.5	11.9	4.6	3.7	1.6
Support Functions and Global Management	-3.9	-6.3	-4.2	-3.7	-4.4
Operating profit (EBIT)	30.7	44.4	41.3	30.0	34.5

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

	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Managed Services	3.6	6.9	9.1	5.8	8.4
Consulting and System Integration	10.8	9.5	11.6	7.4	11.2
Industry Products	13.4	18.3	22.3	15.6	15.4
Product Development Services	14.0	20.5	8.9	6.1	2.6
Operating margin (EBIT)	8.4	11.0	11.9	7.8	8.9

Major shareholders on 31 March 2015

	Shares	%
1 Cevian Capital	11 073 614	15.0
2 Solidium Oy	7 415 418	10.1
3 Silchester International Investors LLP *)	3 666 901	5.0
4 OP-Pohjola Group Central Cooperative	2 160 000	2.9
5 Etera Mutual Pension Insurance Co.	1 646 953	2.2
6 Swedbank Robur fonder	1 573 449	2.1
7 Ilmarinen Mutual Pension Insurance Co.	1 569 627	2.1
8 Nordea funds	894 859	1.2
9 The State Pension fund	823 000	1.1
10 Varma Mutual Pension Insurance Co.	793 488	1.1
Top 10 shareholders total	31 617 309	42.9
- of which nominee registered	5 240 350	7.1
Nominee registered other	25 456 251	34.5
Others	16 639 407	22.6
Total	73 712 967	100.0

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

*) On 17 December 2013, Silchester International Investors LLP announced that its holding in Tieto Corporation was 3 666 901 shares, which represents 5.0% of the shares and voting rights.

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Press conference for analysts and media will be held at Tieto's premises in Stockholm, address: Fjärde Bassängvägen 15, on Tuesday 28 April 2015 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 can be viewed live on [Tieto's website](#). To join the conference, attendees need Adobe Flash plugin version 10.1.0 or newer. The meeting participants can also join a telephone conference that will be held at the same time. The telephone conference details can be found below.

Telephone conference numbers

Finland: +358 (0)9 6937 9590

Sweden: +46 (0)8 5065 3937

UK: +44 (0)20 3427 1909

US: +1212 444 0896

Conference code: 8765732

To ensure that you are connected to the conference call, please dial in a few minutes before the start of the press and analyst conference. An on-demand video will be available after the conference.

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