

Q2 2015

Interim Report 2/2015

January–June

Healthy growth in IT services – competitiveness strengthens further

- IT services growth close to 3% – profit as expected
- Managed Services automation programme on track
- Acquisition of Software Innovation strengthens Tieto's competitiveness
- Solid performance in Product Development Services



Key figures for the second quarter

- Organic growth in local currencies was -3.3% due to lower business volumes in Product Development Services
- In IT services, organic growth in local currencies was 2.7%
- Order intake (Total Contract Value) amounted to EUR 340 (398) million and order backlog was EUR 1 737 (1 550) million
- Second-quarter operating profit excl. one-off items amounted to EUR 30.1 (30.0) million, 8.3% (7.8) of sales

	4-6/2015	4-6/2014	1-6/2015	1-6/2014
Net sales, EUR million	363.8	386.4	729.4	773.4
Change, %	-5.8	-7.3	-5.7	-8.0
Organic change in local currencies, %	-3.3	-1.3	-3.3	-1.3
Operating profit (EBITA), EUR million	23.2	21.7	37.2	56.1
Operating margin (EBITA), %	6.4	5.6	5.1	7.3
Operating profit (EBIT), EUR million	23.1	21.5	37.0	55.5
Operating margin (EBIT), %	6.3	5.6	5.1	7.2
Operating profit (EBIT) excl. one-off items ¹⁾ , EUR million	30.1	30.0	60.8	64.5
Operating margin (EBIT) excl. one-off items ¹⁾ , %	8.3	7.8	8.3	8.3
Profit after taxes, EUR million	17.4	16.5	26.5	41.1
EPS, EUR	0.24	0.23	0.36	0.56
Net cash flow from operations, EUR million	12.4	16.6	49.1	66.6
Return on equity, 12-month rolling, %	4.5	15.3	4.5	15.3
Return on capital employed, 12-month rolling, %	7.5	14.8	7.5	14.8
Investments, EUR million	10.6	7.1	22.2	20.5
Interest-bearing net debt, EUR million	5.3	30.3	5.3	30.3
Net debt/EBITDA	0.0	0.2	0.0	0.2
Book-to-bill	0.9	1.0	1.1	1.1
Order backlog	1 737	1 550	1 737	1 550
Personnel on 30 June	12 949	14 126	12 949	14 126

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:

"I am pleased that we were able to deliver healthy growth in our IT services business in the second quarter. The profitability of the underlying business developed as expected and the margin somewhat improved, despite our continued investments to support long-term growth. We see this development as evidence of further improvement in competitiveness, as the macro environment remains relatively challenging.

We are continuing to make good progress in digitalizing our own services. The current major automation programme in Managed Services is progressing on schedule and we expect the customer benefits of this programme to materialize during the second half of this year. In addition, this software-driven automation programme drives further efficiency improvement.

I am also pleased with the performance of Product Development Services. Our current business, excluding the R&D activities earlier insourced by one customer, has been developing well and efficiency measures have resulted in a healthy cost structure.

Our customers are continuing to reshape their businesses by applying new technologies to their core processes. With the acquisition of Software Innovation, announced in June, we are further strengthening our position as the leading digitalization partner in the Nordic countries and accelerating our growth, especially in Norway. Software Innovation is recognized for its strong Nordic presence in digitalizing customers' document and workflow management, which further enables us to provide a broader set of services to a larger customer base.

After the second quarter of 2015, we are on track in terms of both speed and magnitude with re-shaping Tieto's competitiveness through active investments in both automation and new services."

Market development

- The importance of strong industry and business insight, technology understanding and the ability to orchestrate new digital services for clients has increased
- Additionally, service-driven concepts and multi-vendor service management capabilities have become more important selection criteria for customers during the year

Digital technologies are anticipated to disrupt clients' businesses in the coming years 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. IT is becoming a key tool for enterprises as they continuously seek to differentiate themselves from their competitors with a superior customer experience, enabled by digital technologies and business models.

The shift from traditional IT to emerging services, such as cloud computing, will continue and demand for solutions that can be provided "as a service" will accelerate. Clients need to manage heterogeneous IT landscapes consisting of traditional, customized IT environments and "software as a service" solutions. Application services are also affected by the change as customers are increasingly transforming customized solutions into solutions based on packaged software platforms.

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 the Nordic 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. The market for core banking renewal is active and customers are moving from customized solutions to more standardized software. 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 automation 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. The activity level in the ERP market has increased, especially in the forest segment.

- In the **retail and logistics** sector, enterprises are investing in more advanced solutions in order to achieve better consumer understanding, customer engagement and loyalty. Through digitalization, retailers can provide a unified customer experience in all interaction across different touchpoints. Demand for renewing eCommerce capabilities has remained good, and lately interest in digitalizing stores and store workers has been on the rise. This creates a need for visionary consultancy and implementation capabilities to look across the channels and underlying processes.
- In the **public** sector, Tieto sees good 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 citizen-centric services. 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, demand for digitalization of services and processes has remained good, partly due to the growing number of elderly people who must be taken care of with scarce resources. There is healthy demand, such as for mobile services for elderly people and eServices for welfare. In Finland, deliveries related to national interoperability are continuing, as healthcare customers in the private sector are required to connect to the archive by the end of the year.
- In the **energy** sector, interest in "software as a service" solutions is accelerating in the energy utilities market as clients are seeking to reduce the cost of IT ownership, e.g. in billing and CRM systems. The market for advanced metering infrastructure is progressing well, especially in Norway and Sweden. In the oil & gas market, investment levels have remained low and customers are requesting price reductions in continuous services as well.
- 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 communications infrastructure is experiencing a significant change, as the network infrastructure is being transformed into cloud solutions, running on more standardized hardware. Additionally, connectivity continues to be a strong trend, providing new opportunities for product development partners and introducing telecom-like solutions into new areas, such as the automotive industry. 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.

Aggregated sales of emerging services amounted to close to EUR 130 million in the first half and growth totalled 24%:

- Customer Experience Management
- Lifecare
- 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 second quarter, Tieto signed an agreement to acquire Software Innovation, a leading software company in the Enterprise Content Management (ECM) business in the Nordic countries. The transaction strengthens Tieto's presence

especially in Norway and expands the company's scalable software-driven business. In addition, Tieto sees attractive opportunities to provide Tieto's current broad set of services to new customers. Software Innovation has approximately 350 employees, and in 2014 the company's net sales amounted to around NOK 364 million (EUR 41 million) and operating margin (EBIT) to 12.5%. Currently, around 75% of its sales come from Norway and the rest mainly from Sweden and Denmark.

Customer Experience Management

New services provide enterprises with means to differentiate themselves from their competitors by excelling in digitally empowered experience and utilizing advanced user behaviour analysis. Customers' focus is gradually shifting from website development and mobile applications to more holistic use of digital services, enabling better marketing, sales and service across all digital channels. This drives demand for customer insight and commerce solutions as well as digital self-services and tools for creating a comprehensive overview of the customer situation for service personnel. The Nordic market is expected to grow by an annual rate of around 20% in the coming years.

The company has increased its investments in this area and recruited new talent to strengthen its thought leadership position in its home market. In the second quarter, Tieto and Varma launched the first mobile application in the pension sector. The application enables entrepreneurs to handle multiple tasks without needing to contact customer services. Tieto was also the implementation partner for Metsä Group, which launched the first eCommerce solution for forest owners, enabling forest owners to sell wood and buy forestry services.

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. Tieto has recruited more personnel in this area and offering development costs have increased as well. Further investments will be made in the suite of applications, with a number of new launches being expected 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. All 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

The industrial internet market is also poised for growth in the Nordic countries. Today, more data is generated by machines than by people. As the Industrial Internet integrates physical machinery with smart processes, big data and advanced analytics, it can be used for monitoring equipment, homes, cars and human beings, to mention a few examples. Based on the data analyzed, a multitude of new services can be designed in all industries, e.g. manufacturing, construction, healthcare and telecom. Data from intelligent machines is collected to optimize production processes as well as to ensure efficient workflows and the availability of machines. Benefits include increased utilization of assets, lower maintenance costs and improved customer service. The Nordic market is expected to grow by an annual rate of around 50% (CAGR) to over EUR 5 billion by 2020.

Investments in offering development were accelerated in the first half. The focus has been on the design of offerings for various sectors and productization of the connected devices platform. In the second quarter, Tieto was chosen as the full-service IT partner for a research project to design intelligent solutions for future living. One of the key objectives is to support sustainable living by optimizing energy and water consumption and waste handling. During spring 2015, TeliaSonera together with Tieto launched the M2M in a Box service in Sweden and the company is preparing to launch it in other Nordic and Baltic markets as well. M2M is a cloud service managed through a web user interface and includes multi-sensor intelligence that enables companies and organizations in any industry to connect everything from buildings and shops to vehicles and machinery.

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. 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 sectors.

In Managed Services, Tieto Cloud Server and Tieto Productivity Cloud continue to see strong demand. Second-quarter sales growth of cloud offerings totalled 92% compared with the corresponding quarter in 2014. Cloud offerings currently represent around 15% of Managed Services' sales.

Performance improvement in 2015

Tieto expects its full-year underlying profit to improve from 2014, with improvement anticipated to materialize mainly in the second half. Second-quarter performance was favourable, as visible in sales growth of 2.7% in IT services and positive development in underlying profitability. The positive development is anticipated to accelerate in the second half.

Performance drivers for IT services in 2015 include

- sales growth – new contracts won during the past four quarters are expected to contribute to higher sales growth in the second half
- service and competence renewal
 - offering development in selected areas – full-year costs are expected to exceed the previous years' level
 - automation in Managed Services – temporary overlapping costs related to the transition strained operating margin in the first quarter while automation is anticipated to improve margins in the second half
 - recruitments – Tieto has recruited new talent in new businesses, to a large extent in offshore countries
 - cost savings – the positive impact related to redundancies, announced in January, is expected to materialize in the second half.
- currency fluctuations – based on end of June exchange rates, currencies will have a lower impact in the second half.

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 local currencies was 0.5% in the first quarter and started to accelerate in the second quarter.

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 industry consultants, digital architects, user experience designers and software developers, among others. During 2015, the company expects to add several hundred positions in new competence areas. In the first half, recruitments amounted to over 400. On the other hand, new services are less labour-intensive and automation via self-service channels will reduce the need for certain existing roles.

The automation programme in Managed Services is fully on track. The related costs together with an increase in Tieto's internal development amounted to close to EUR 5 million in the first half. 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 development costs are expected to exceed the previous year's level of EUR 50 million. In the first half, offering development costs increased by some EUR 8 million. In the second half, costs are anticipated to remain at least at the previous year's level.

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. In Managed Services, redundancies were implemented mainly during the second quarter, and in Consulting and System Integration, reductions are expected to materialize mainly in the third quarter. By the end of June, the reductions based on personnel negotiations amounted to around 500 employees.

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 EUR 20 million in the second half. Measures initiated in January 2015 are anticipated to result in additional gross savings of close to EUR 30 million in 2016. However, the impact of savings on the IT services cost base will be partly offset by recruitments of new talent within growth areas.

Related to the measures initiated mainly in January 2015, Tieto will book restructuring costs of some EUR 35 million, of which EUR 23.8 million materialized in the first half.

Currency fluctuations had a negative impact on sales and operating profit compared with the corresponding period in the previous year. Based on the end of June exchange rate levels, the impact of currencies on the third and fourth quarter is anticipated to be smaller than in the second quarter. The negative impact on sales and operating profit is mainly attributable to the Swedish Krona. Operating profit is also affected by the Indian Rupee.

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 was 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 were implemented by the early second quarter. 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 April–June

Second-quarter net sales amounted to EUR 363.8 (386.4) million, down by 5.8%. Organically, net sales in local currencies were down by 3.3%. The decline was attributable large projects that were concluded in Product Development Services, as announced in October 2014. Currency fluctuations had a negative impact of EUR 5 million on sales, mainly due to the weaker Swedish Krona. In IT services, net sales in local currencies were organically up by 2.7%.

Second-quarter operating profit (EBIT) amounted to EUR 23.1 (21.5) million, representing a margin of 6.3% (5.6). Operating profit included EUR 7.0 million in restructuring costs. Operating profit excl. one-off items¹⁾ stood at EUR 30.1 (30.0) million, or 8.3% (7.8) of net sales. Currency changes had a negative impact of EUR 2 million on operating profit. The negative effect was mainly attributable to the Swedish Krona and Indian Rupee. Profitability was affected by Tieto's investments in offering development, mainly in Industry Products and Consulting, and System Integration. Offering development costs increased by EUR 4 million in the second quarter.

The efficiency measures taken in 2014 had a positive effect of EUR 5 million on operating profit in IT services compared with the second 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) were on the rise in the second quarter due to recruitments in new service areas.

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

Depreciation and amortization amounted to EUR 14.4 (15.6) million. Net financial expenses stood at EUR 1.3 (1.0) million in the second quarter. Net interest expenses were EUR 0.8 (0.7) million and net gains from foreign exchange transactions EUR 0.3 (0.0) million. Other financial income and expenses amounted to EUR -0.8 (-0.3) million.

Earnings per share (EPS) totalled EUR 0.24 (0.23). Earnings per share excluding one-off items¹⁾ amounted to EUR 0.31 (0.32).

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

Financial performance by service line

EUR million	Customer sales 4–6/2015	Customer sales 4–6/2014	Change, %	Operating profit 4–6/2015	Operating profit 4–6/2014
Managed Services	131	132	-1	3.1	7.6
Consulting and System Integration	101	97	5	8.5	6.1
Industry Products	98	97	1	10.8	15.0
Product Development Services	33	60	-45	5.7	-2.3
Support Functions and Global Management				-5.0	-4.8
Total	364	386	-6	23.1	21.5

Operating margin by service line

%	Operating margin 4–6/2015	Operating margin 4–6/2014	Operating margin excl. one-off items ¹⁾ 4–6/2015	Operating margin excl. one-off items ¹⁾ 4–6/2014
Managed Services	2.4	5.8	7.6	5.8
Consulting and System Integration	8.4	6.3	8.6	7.4
Industry Products	11.0	15.3	12.2	15.6
Product Development Services	17.1	-3.8	9.6	6.1
Total	6.3	5.6	8.3	7.8

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 4–6/2015	Customer sales adj. for divestments 4–6/2014	Change, %
Managed Services	132	132	1
Consulting and System Integration	102	97	6
Industry Products	100	97	3
IT services	335	326	3
Product Development Services	34	55	-39
Total	369	386	-3

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

In **Managed Services**, demand for cloud services remained strong while the market for traditional services was down. The comparison figure for 2014 includes around EUR 5 million in revenue recognized from equipment sales, with Tieto as the lessor. Sales of cloud services amounted to EUR 20 million, up by 92% compared with the corresponding quarter in 2014. Operating profit excl. one-off items of EUR 6.9 million rose to EUR 9.9 (7.6) million, mainly due to increased offshoring and a reduced cost base. The automation programme aiming at improving customer experience, competitiveness and efficiency of delivery is fully on track. Savings from personnel reductions related to the programme are expected to materialize as from the third quarter.

In **Consulting and System Integration**, the business continued to develop favourably. Good demand for Customer Experience Management services, industry consulting and ERP-based solutions continued while traditional application management experienced price erosion and reduced revenues. Operating profit excl. one-off items rose to EUR 8.7 (7.2) million while the comparison figure was strained by costs of EUR 3 million related to the termination of the Vitja project. Excluding the Vitja costs, underlying profitability was somewhat down due to higher investments in offering development and recruitments related to service and competence renewal. Investments are targeted at growth businesses and service delivery industrialization. Savings from personnel reductions related to service delivery industrialization are anticipated to materialize as from the fourth quarter.

In **Industry Products**, sales in local currencies were up by 3%. Financial Services saw good demand, with the Card Suite posting the strongest growth. Additionally, development in the healthcare and welfare sector as well as the energy utilities segment was positive. Demand in the oil and gas segments remained weak and sales continued to decline. Despite efficiency improvement, operating profit was down due to an increase in offering development and negative currency effects. Offering development costs increased by over EUR 3 million, especially in Lifecare and Industrial Internet. The quarter ended with a good order backlog, and profitability in both third and fourth quarters is expected to be seasonally stronger.

In **Product Development Services (PDS)**, sales to the current customer base remained stable or were on the rise, especially in the semiconductor segment. The sales decline compared to previous quarters was attributable to

insourcing by one key customer as its projects ended at the beginning of the quarter. Operating profit included EUR 2.5 million in reversal of restructuring costs, resulting in a strong margin. Also underlying profitability improved substantially and operating margin excl. one-off items rose to 9.6% (6.1). Efficiency measures undertaken in 2014 have resulted in a healthy cost structure for the existing business. The normalized underlying on-going operating margin is expected to level out in a range below 10% while the third quarter is typically seasonally weaker.

Customer sales by industry group

EUR million	Customer sales 4-6/2015	Customer sales 4-6/2014	Change, %
Financial Services	88	84	4
Manufacturing, Retail and Logistics	77	78	0
Public, Healthcare and Welfare	107	104	2
Telecom, Media and Energy	58	60	-3
IT services	330	326	1
Product Development Services	33	60	-45
Total	364	386	-6

Organic change in local currency by industry group

EUR million	Customer sales adj. for acquisitions and currency 4-6/2015	Customer sales adj. for divestments 4-6/2014	Change, %
Financial Services	89	84	6
Manufacturing, Retail and Logistics	78	78	0
Public, Healthcare and Welfare	108	104	4
Telecom, Media and Energy	60	60	-1
IT services	335	326	3
Product Development Services	34	55	-39
Total	369	386	-3

In **Financial Services**, sales in local currencies grew organically by 6%, or 10% excluding revenue recognized from equipment sales in the comparison figure. Demand was healthy overall in all service lines, Industry Products, CSI and Managed Services. Demand for Tieto's industry-specific products for the banking sector was good while the situation in Eastern Europe remains challenging.

In **Manufacturing, Retail and Logistics**, sales in local currencies remained at the previous year's level. The manufacturing sector saw strong 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 several 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 Sweden and Norway were the strongest markets. Growth has been driven, for example, by mobile services for elderly care and eServices in the welfare segment.

In **Telecom, Media and Energy**, underlying development is starting to stabilize and development in the telecom and energy utilities segments was positive. In the telecom sector, sales growth is attributable to customers' transformation programmes. Sales in local currencies were down by 1%, mainly due to continued weak demand in the oil and gas segment.

Financial performance in January–June

First-half net sales amounted to EUR 729.4 (773.4) million, down by 5.7%. Organically, net sales in local currencies were down by 3.3%. The decline was attributable large projects that were concluded in Product Development Services, as announced in October 2014. Currency fluctuations had a negative impact of EUR 16 million on sales, mainly due to the weaker Swedish Krona. In IT services, net sales in local currencies were organically up by 1.6%.

First-half operating profit (EBIT) amounted to EUR 37.0 (55.5) million, representing a margin of 5.1% (7.2). Operating profit included EUR 23.8 million in restructuring costs. Operating profit excl. one-off items¹⁾ stood at EUR 60.8 (64.5) million, or 8.3% (8.3) of net sales. Currency changes had a negative impact of EUR 6 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 development and temporary overlapping costs due to the transition related to the automation programme in Managed Services, increased by EUR 13 million in the first half.

The efficiency measures taken in 2014 had a positive effect of EUR 10 million on operating profit in IT services compared with the first half of 2014 while salary inflation strained personnel costs by around EUR 10 million.

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

Depreciation and amortization amounted to EUR 28.9 (31.0) million. Net financial expenses stood at EUR 3.0 (2.2) million in the first half. Net interest expenses were EUR 1.3 (1.5) million and net losses from foreign exchange transactions EUR 0.7 (0.1) million. Other financial income and expenses amounted to EUR -1.0 (-0.6) million.

Earnings per share (EPS) totalled EUR 0.36 (0.56). Earnings per share excluding one-off items¹⁾ amounted to EUR 0.62 (0.66).

¹⁾ Excl. capital gains, impairments and restructuring costs

Financial performance by service line

EUR million	Customer sales 1–6/2015	Customer sales 1–6/2014	Change, %	Operating profit 1–6/2015	Operating profit 1–6/2014
Managed Services	257	259	-1	-5.2	18.4
Consulting and System Integration	201	197	2	16.7	17.2
Industry Products	192	198	-3	23.3	30.4
Product Development Services	80	120	-33	12.3	-1.2
Support Functions and Global Management				-10.0	-9.4
Total	729	773	-6	37.0	55.5

Operating margin by service line

%	Operating margin 1–6/2015	Operating margin 1–6/2014	Operating margin excl. one-off items ¹⁾ 1–6/2015	Operating margin excl. one-off items ¹⁾ 1–6/2014
Managed Services	-2.0	7.1	5.7	7.1
Consulting and System Integration	8.3	8.7	9.7	9.3
Industry Products	12.1	15.4	12.8	15.5
Product Development Services	15.3	-1.0	12.2	4.4
Total	5.1	7.2	8.3	8.3

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 1-6/2015	Customer sales adj. for divestments 1-6/2014	Change, %
Managed Services	262	259	1
Consulting and System Integration	203	197	3
Industry Products	199	198	1
IT services	664	653	2
Product Development Services	80	116	-31
Total	744	773	-3

Customer sales by industry group

EUR million	Customer sales 1-6/2015	Customer sales 1-6/2014	Change, %
Financial Services	171	167	2
Manufacturing, Retail and Logistics	155	157	-1
Public, Healthcare and Welfare	208	204	2
Telecom, Media and Energy	115	125	-8
IT services	649	653	-1
Product Development Services	80	120	-33
Total	729	773	-6

Organic change in local currency by industry group

EUR million	Customer sales adj. for acquisitions and currency 1-6/2015	Customer sales adj. for divestments 1-6/2014	Change, %
Financial Services	176	167	5
Manufacturing, Retail and Logistics	157	157	0
Public, Healthcare and Welfare	212	204	4
Telecom, Media and Energy	119	125	-5
IT services	664	653	2
Product Development Services	80	116	-31
Total	744	773	-3

Cash flow, financing and investments

Second-quarter net cash flow from operations amounted to EUR 12.4 million (16.6), including the increase of EUR 16.2 (18.6) million in net working capital. The comparison figure for 2014 included a tax refund of EUR 8.2 million. First-half net cash flow from operations amounted to EUR 49.1 million (66.6), including the increase of EUR 3.3 (15.9) million in net working capital.

Payments for restructuring, which have a negative impact on cash flow, amounted to about EUR 12 (12) million in the second quarter. The restructuring-related payments in the third quarter are anticipated to remain at the second-quarter level.

Tax payments were EUR 13.6 (3.0 including a refund of EUR 8.2 million in Finland) million in the first half.

First-half capital expenditure totalled EUR 22.2 (20.5) million, of which paid EUR 22.1 (20.6) million. Capital expenditure represented 3.0% (2.7) of net sales and was mainly related to data centres.

The equity ratio was 44.8% (48.7). Gearing decreased to 1.3% (6.2). Net debt totalled EUR 5.3 (30.3) million, including EUR 127.7 million in interest-bearing debt, EUR 9.4 million in finance lease receivables, EUR 0.8 million in other interest-bearing receivables and EUR 112.2 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 100.2 million at the end of June. Interest-bearing short-term loans amounted to EUR 27.5 million, mainly related to commercial papers, joint venture cash pool balances and an agreement for software licence financing. Tieto's syndicated revolving credit facility was refinanced in May 2015 by a new five-year EUR 150 million unsecured syndicated revolving credit facility with two one-year extension options. The credit facility was not in use at the end of June.

Order backlog

Total Contract Value (TCV) amounted to EUR 340 (398) million in the second quarter. The total value, including the part beyond the notice period, is included in the TCV. Second-quarter book-to-bill stood at 0.9 (1.0). TCV for the deals signed in the six-month period amounted to EUR 770 (800) million and book-to-bill stood at 1.1 (1.1).

The order backlog rose to EUR 1 737 (1 550) million. Due to the fact that the average agreement period has been on the rise, a smaller share, 33% (37), of the backlog is expected to be invoiced during the current year.

Major agreements in January–June

During the first half of the year, Tieto 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.

In April, Tieto and Cerdo signed a contract on outsourcing of administrative payments and savings services for the banking and financial sector. Based on the agreement, Tieto will be able to provide an attractive outsourcing solution for the Nordic financial market.

Business transactions in January–June

In June, Tieto signed an agreement to acquire Software Innovation, a leading software company in the Enterprise Content Management (ECM) business in the Nordic countries. Software Innovation has approximately 350 employees, and in 2014 the company's net sales amounted to around NOK 364 million (EUR 41 million). Currently, around 75% of its sales come from Norway and the public sector represents around 70% of sales. The closing of the acquisition is anticipated to take place during autumn.

Personnel and management

The number of full-time employees amounted to 12 949 (14 126) at the end of June. The number of full-time employees in the global delivery centres totalled 5 960 (6 481), or 46.0% (45.9) of all personnel. In Product Development Services, the offshore ratio was 55.4% (61.6). In IT services, the offshore ratio continued to rise and stood at 44.9% (41.7%) at the end of June.

In the first half, the number of full-time employees decreased by a net amount of close to 800, of which over 700 in Product Development Services. In IT services, recruitments added over 400 employees while job cuts reduced the number of personnel by around 500. The 12-month rolling employee turnover stood at 10.6% (9.4) at the end of June. The average number of full-time employees was 13 346 (14 180).

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.

Antti Vasara, Executive Vice President, Head of Product Development Services, has decided to pursue opportunities outside Tieto. Tom Leskinen, currently heading a business unit in PDS, has been nominated as Head of Product Development Services and he will report to Kimmo Alkio, President and CEO. The changes will take effect as of 1 August 2015.

Christian Schøyen, currently acting country manager for Norway and head of CSI in Norway and New Markets, has been appointed Country Manager for Norway in addition to his CSI role.

Shares and share-based incentives

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.

On 23 June, Silchester International Investors LLP announced that its aggregate holding in Tieto Corporation has risen to 10.00%.

Between 1 April and 3 June 2015, a total of 50 638 Tieto Corporation new shares were subscribed for with the company's stock options 2009C. As a result of subscriptions, the number of Tieto shares increased to 73 976 801. The shares subscribed for under the stock options were registered in the Trade Register on 16 June.

Near-term risks and uncertainties

Slow growth in Europe might lead to weakness in the IT services market as well. The company's development is relatively sensitive to changes in the demand from large customers as Tieto's top 10 customers currently account for 31% of its net sales. However, the share has decreased by around three percentage points from 2014.

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. PDS booked goodwill impairment in 2014 due to the reduction in business volumes and has efficiently adjusted its cost base. Overall, the growth in insourcing in the telecom sector and the challenging operating environment might lead to volatility and potential goodwill impairments 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 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 4–6	2014 4–6	2015 1–3	2015 1–6	2014 1–6	2014 1–12
Earnings per share, EUR						
Basic	0.24	0.23	0.12	0.36	0.56	0.48
Diluted	0.24	0.23	0.12	0.36	0.56	0.48
Equity per share, EUR	5.69	6.70	5.45	5.69	6.70	6.44
Return on equity, 12-month rolling, %	4.5	15.3	4.5	4.5	15.3	7.1
Return on capital employed, 12-month rolling, %	7.5	14.8	7.7	7.5	14.8	9.8
Equity ratio, %	44.8	48.7	39.6	44.8	48.7	47.8
Interest-bearing net debt, EUR million	5.3	30.3	-85.9	5.3	30.3	-59.2
Gearing, %	1.3	6.2	-21.5	1.3	6.2	-12.6
Investments, EUR million	10.6	7.1	11.6	22.2	20.5	43.5

Number of shares

	2015 4-6	2015 1-3	2015 1-6	2014 1-6	2014 1-12
Outstanding shares, end of period					
Basic	73 511 717	73 247 883	73 511 717	73 059 467	73 165 084
Diluted	73 590 366	73 463 736	73 590 366	73 360 108	73 418 924
Outstanding shares, average					
Basic	73 436 627	73 215 497	73 326 672	72 772 385	72 944 228
Diluted	73 557 549	73 451 489	73 504 811	73 084 258	73 221 816
Company's possession of its own shares					
End of period	465 084	465 084	465 084	510 819	510 819
Average	465 084	489 646	477 297	519 547	515 147

Income statement, EUR million

	2015 4–6	2014 4–6	2015 1–6	2014 1–6	Change %	2014 1–12
Net sales	363.8	386.4	729.4	773.4	-6	1 522.5
Other operating income	4.8	3.8	9.8	7.6	29	18.1
Employee benefit expenses	-212.2	-219.3	-437.3	-436.7	0	-846.0
Depreciation, amortization and impairment charges	-14.4	-15.6	-28.9	-31.0	-7	-104.0
Other operating expenses	-120.0	-135.1	-238.3	-260.2	-8	-534.8
Share of profit from investments accounted for using the equity method	1.1	1.3	2.3	2.4	-4	5.3
Operating profit (EBIT)	23.1	21.5	37.0	55.5	-33	61.1
Interest and other financial income	0.5	0.3	0.9	0.5	80	1.2
Interest and other financial expenses	-2.1	-1.3	-3.2	-2.6	23	-4.9
Net exchange gains/losses	0.3	0.0	-0.7	-0.1	-	-0.8
Profit before taxes	21.8	20.5	34.0	53.3	-36	56.6
Income taxes	-4.4	-4.0	-7.5	-12.2	-39	-21.6
Net profit for the period	17.4	16.5	26.5	41.1	-36	35.0
Net profit for the period attributable to						
Shareholders of the Parent company	17.4	16.5	26.5	41.1	-36	35.0
Non-controlling interest	0.0	0.0	0.0	0.0	-	0.0
	17.4	16.5	26.5	41.1	-36	35.0
Earnings per share attributable to the shareholders of the Parent company, EUR						
Basic	0.24	0.23	0.36	0.56	-36	0.48
Diluted	0.24	0.23	0.36	0.56	-36	0.48
Statement of comprehensive income, EUR million						
Net profit for the period	17.4	16.5	26.5	41.1	-36	35.0
Items that may be reclassified subsequently to profit or loss						
Translation differences	-1.5	-4.5	9.8	-5.3	-	-10.1
Cash flow hedges (net of tax)	0.2	0.5	0.6	1.0	-40	1.4
Items that will not be reclassified subsequently to profit or loss						
Actuarial gain/loss on post-employment benefit obligations (net of tax)	1.9	0.0	1.9	0.0	-	-10.3
Total comprehensive income	18.0	12.5	38.8	36.8	5	16.0
Total comprehensive income attributable to						
Shareholders of the Parent company	18.0	12.5	38.8	36.8	5	16.0
Non-controlling interest	0.0	0.0	0.0	0.0	-	0.0
	18.0	12.5	38.8	36.8	5	16.0

Balance sheet, EUR million

	2015 30 Jun	2014 30 Jun	Change %	2014 31 Dec
Goodwill	327.5	367.5	-11	323.7
Other intangible assets	30.4	41.3	-26	32.8
Property, plant and equipment	78.3	85.4	-8	82.2
Investments accounted for using the equity method	16.3	18.1	-10	19.3
Deferred tax assets	27.0	26.0	4	27.9
Finance lease receivables	5.1	6.0	-15	5.4
Other interest-bearing receivables	0.5	1.2	-58	0.9
Available-for-sale financial assets	0.7	0.7	0	0.7
Total non-current assets	485.8	546.2	-11	492.9
Trade and other receivables	384.1	393.1	-2	371.2
Pension benefit assets	-	7.1	-	-
Finance lease receivables	4.3	4.4	-2	4.7
Other interest-bearing receivables	0.3	0.3	0	0.3
Current income tax receivables	4.6	6.8	-32	1.8
Cash and cash equivalents	112.2	99.6	13	160.6
Total current assets	505.5	511.3	-1	538.6
Total assets	991.3	1 057.5	-6	1 031.5
Share capital, share issue premiums and other reserves	121.1	121.3	0	120.5
Share issue based on stock options	-	-	-	0.5
Retained earnings	297.0	368.4	-19	350.1
Parent shareholders' equity	418.1	489.7	-15	471.1
Non-controlling interest	0.1	0.1	0	0.1
Total equity	418.2	489.8	-15	471.2
Loans	100.2	101.6	-1	100.8
Deferred tax liabilities	22.9	25.6	-11	22.9
Provisions	14.4	6.5	122	15.2
Pension obligations	20.7	19.7	5	24.0
Other non-current liabilities	1.7	2.5	-32	2.1
Total non-current liabilities	159.9	155.9	3	165.0
Trade and other payables	343.5	335.4	2	339.9
Current income tax liabilities	8.8	11.2	-21	12.3
Provisions	33.4	25.1	33	31.3
Loans	27.5	40.1	-31	11.8
Total current liabilities	413.2	411.8	0	395.3
Total equity and liabilities	991.3	1 057.5	-6	1 031.5

Net working capital in the balance sheet, EUR million

	2015 30 Jun	2014 30 Jun	Change %	2015 31 Mar	2014 31 Dec
Accounts receivable	247.6	286.0	-13	274.7	279.9
Other working capital receivables	135.7	100.6	35	112.4	87.1
Working capital receivables included in assets	383.3	386.6	-1	387.1	367.0
Accounts payable	92.4	74.8	24	82.3	91.0
Personnel related accruals	138.4	142.1	-3	156.5	140.8
Provisions	47.8	31.6	51	51.5	46.5
Other working capital liabilities	113.3	119.7	-5	116.4	107.4
Working capital liabilities included in current liabilities	391.9	368.2	6	406.7	385.7
Net working capital in the balance sheet	-8.6	18.4	-	-19.6	-18.7

Cash flow, EUR million

	2015 4–6	2014 4–6	2015 1–3	2015 1–6	2014 1–6	2014 1–12
Cash flow from operations						
Net profit	17.4	16.5	9.1	26.5	41.1	35.0
Adjustments						
Depreciation, amortization and impairment charges	14.4	15.6	14.5	28.9	31.0	104.0
Share-based payments	0.3	0.0	0.1	0.4	0.0	0.1
Profit/loss on sale of fixed assets and shares	0.0	-0.1	0.0	0.0	-0.3	-0.4
Share of profit from investments accounted for using the equity method	-1.1	-1.3	-1.2	-2.3	-2.4	-5.3
Other adjustments	1.3	-0.7	-1.1	0.2	-0.8	-2.1
Net financial expenses	1.3	1.0	1.7	3.0	2.2	4.5
Income taxes	4.4	4.0	3.1	7.5	12.2	21.6
Change in net working capital	-16.2	-18.6	12.9	-3.3	-15.9	17.4
Cash generated from operations	21.8	16.4	39.1	60.9	67.1	174.8
Net financial expenses paid	-3.1	-3.1	-0.5	-3.6	-3.4	-5.8
Dividends received from investments accounted for using the equity method	-	-	5.4	5.4	5.9	5.9
Income taxes paid	-6.3	3.3	-7.3	-13.6	-3.0	-7.0
Net cash flow from operations	12.4	16.6	36.7	49.1	66.6	167.9
Cash flow from investing activities						
Acquisition of Group companies and business operations, net of cash acquired	-0.2	-	-	-0.2	-	3.7
Capital expenditures	-10.5	-7.2	-11.6	-22.1	-20.6	-43.0
Disposal of Group companies and business operations, net of cash disposed	-	0.1	-	-	0.7	3.3
Sales of fixed assets	0.0	0.5	0.1	0.1	0.5	0.6
Sales of available-for-sale financial assets	0.0	-	-	0.0	-	-
Change in loan receivables	0.6	-4.7	0.5	1.1	-4.0	-3.5
Net cash used in investing activities	-10.1	-11.3	-11.0	-21.1	-23.4	-38.9
Cash flow from financing activities						
Dividends paid	-95.2	-65.4	-	-95.2	-65.4	-65.4
Exercise of stock options	2.8	4.0	0.5	3.3	4.1	5.4
Payments of finance lease liabilities	-0.1	-1.0	-0.2	-0.3	-1.9	-3.7
Change in interest-bearing liabilities	18.2	19.7	-2.9	15.3	6.1	-21.1
Net cash used in financing activities	-74.3	-42.7	-2.6	-76.9	-57.1	-84.8
Change in cash and cash equivalents	-72.0	-37.4	23.1	-48.9	-13.9	44.2
Cash and cash equivalents at the beginning of period	184.8	136.3	160.6	160.6	114.1	114.1
Foreign exchange differences	-0.6	0.7	1.1	0.5	-0.6	2.3
Change in cash and cash equivalents	-72.0	-37.4	23.1	-48.9	-13.9	44.2
Cash and cash equivalents at the end of period	112.2	99.6	184.8	112.2	99.6	160.6

Statement of changes in shareholders' equity, EUR million

	Parent shareholders' equity								Non- control- ing inter- est	Total equity	
	Share capi- tal	Share issue premi- ums and other re- ser- ves	Share issue based on stock op- tions	Own shares	Trans- lation differ- ences	Cash flow hedges	In- vest- ed unre- strict- ed equity re- serve	Re- tained earn- ings			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								41.1	41.1	0.0	41.1
Other comprehensive income											
Actuarial gain on post- employment benefit obligations (net of tax)								0.0	0.0		0.0
Translation difference		-1.0			-10.3			6.0	-5.3		-5.3
Cash flow hedges (net of tax)						1.0			1.0		1.0
Total comprehensive income		-1.0			-10.3	1.0		47.1	36.8	0.0	36.8
Transactions with owners											
Share-based payments recognized against equity								0.2	0.2		0.2
Dividend								-65.4	-65.4		-65.4
Share subscriptions based on stock options			-0.1				4.1		4.0		4.0
Non-controlling interest											0.0
Total transactions with owners	0.0	0.0	-0.1				4.1	-65.2	-61.2	0.0	-61.2
Impact on investments accounted for using the equity method								0.0	0.0		0.0
At 30 Jun 2014	76.6	44.7	0.0	-11.6	-36.9	-0.7	7.2	410.4	489.7	0.1	489.8

	Parent shareholders' equity									Non- control- ing inter- est	Total equity
	Share capita- l	Share issue premi- ums and other re- ser- ves	Share issue based on stock op- tions	Own shares	Trans- lation differ- ences	Cash flow hedges	In- vest- ed unre- strict- ed equity re- serve	Re- tain- ed earn- ings	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								26.5	26.5	0.0	26.5
Other comprehensive income											
Actuarial gain on post- employment benefit obligations (net of tax)								1.9	1.9		1.9
Translation difference		0.6			10.0			-0.8	9.8		9.8
Cash flow hedges (net of tax)						0.6			0.6		0.6
Total comprehensive income		0.6			10.0	0.6		27.6	38.8	0.0	38.8
Transactions with owners											
Share-based payments recognized against equity								0.6	0.6		0.6
Dividend								-95.2	-95.2		-95.2
Share subscriptions based on stock options			-0.5				3.3		2.8		2.8
Non-controlling interest											0.0
Total transactions with owners	0.0	0.0	-0.5				3.3	-94.6	-91.8	0.0	-91.8
Impact on investments accounted for using the equity method								0.0	0.0		0.0
At 30 Jun 2015	76.6	44.5	0.0	-11.6	-41.0	0.3	11.8	337.5	418.1	0.1	418.2

Segment information

Customer sales by service line, EUR million

	2015	2014	Change	2015	2014	Change	2014
	4–6	4–6	%	1–6	1–6	%	1–12
Managed Services	131	132	-1	257	259	-1	512
Consulting and System Integration	101	97	5	201	197	2	387
Industry Products	98	97	1	192	198	-3	395
Product Development Services	33	60	-45	80	120	-33	229
Group total	364	386	-6	729	773	-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	Change	Share	2014	Share	2014
	1–6	%	%	1–6	%	1–12
Finland	337	-7	46	362	47	711
Sweden	281	1	39	279	36	548
Other	111	-17	15	133	17	264
Group total	729	-6	100	773	100	1 522

In Finland, IT services sales grew by 2% in the six-month period.

In Sweden, growth in local currencies was 5%. IT services grew by 3% in local currencies.

In Norway, growth in local currencies was 1%.

Customer sales by industry group, EUR million

	2015	2014	Change	2015	2014	Change	2014
	4–6	4–6	%	1–6	1–6	%	1–12
Financial Services	88	84	4	171	167	2	335
Manufacturing, Retail and Logistics	77	78	0	155	157	-1	311
Public, Healthcare and Welfare	107	104	2	208	204	2	410
Telecom, Media and Energy	58	60	-3	115	125	-8	238
Product Development Services	33	60	-45	80	120	-33	229
Group total	364	386	-6	729	773	-6	1 522

Customer sales to the telecom sector were EUR 148 (192) million during January-June.

Revenues derived from any single external customer during January–June 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	2015	2014	Change	2014
	4-6	4-6	%	1-6	1-6	%	1-12
Managed Services	3.1	7.6	-58.8	-5.2	18.4	-128.2	37.6
Consulting and System Integration	8.5	6.1	39.2	16.7	17.2	-2.7	34.9
Industry Products	10.8	15.0	-28.1	23.3	30.4	-23.3	68.1
Product Development Services	5.7	-2.3	347.3	12.3	-1.2	1 145.3	-42.9
Support Functions and Global Management	-5.0	-4.8	-2.9	-10.0	-9.4	-6.9	-36.5
Operating profit (EBIT)	23.1	21.5	7.1	37.0	55.5	-33.3	61.1

Operating margin (EBIT) by service line, %

	2015	2014	Change	2015	2014	Change	2014
	4-6	4-6		1-6	1-6		1-12
Managed Services	2.4	5.8	-3.4	-2.0	7.1	-9.1	7.3
Consulting and System Integration	8.4	6.3	2.1	8.3	8.7	-0.4	9.0
Industry Products	11.0	15.3	-4.4	12.1	15.4	-3.3	17.3
Product Development Services	17.1	-3.8	20.9	15.3	-1.0	16.3	-18.7
Operating margin (EBIT)	6.3	5.6	0.8	5.1	7.2	-2.1	4.0

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

	2015	2014	Change	2015	2014	Change	2014
	4-6	4-6	%	1-6	1-6	%	1-12
Managed Services	9.9	7.6	30.1	14.5	18.3	-20.6	38.4
Consulting and System Integration	8.7	7.2	20.9	19.4	18.4	5.9	38.3
Industry Products	12.0	15.2	-21.0	24.7	30.5	-19.2	70.3
Product Development Services	3.2	3.7	-12.1	9.8	5.2	86.3	21.7
Support Functions and Global Management	-3.6	-3.7	2.8	-7.5	-8.0	6.4	-18.5
Operating profit (EBIT)	30.1	30.0	0.4	60.8	64.5	-5.7	150.2

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

	2015	2014	Change	2015	2014	Change	2014
	4-6	4-6		1-6	1-6		1-12
Managed Services	7.6	5.8	1.8	5.7	7.1	-1.4	7.5
Consulting and System Integration	8.6	7.4	1.1	9.7	9.3	0.4	9.9
Industry Products	12.2	15.6	-3.3	12.8	15.5	-2.6	17.8
Product Development Services	9.6	6.1	3.6	12.2	4.4	7.8	9.5
Operating margin (EBIT)	8.3	7.8	0.5	8.3	8.3	0.0	9.9

Personnel by service line

	End of period			Average			
	2015	Change	Share	2014	2014	2015	2014
	1-6	%	%	1-6	1-12	1-6	1-6
Managed Services	3 073	-2	24	3 137	3 321	3 283	3 108
Consulting and System Integration	4 189	8	32	3 886	3 953	4 126	3 897
Industry Products	3 139	6	24	2 971	3 181	3 149	2 952
Product Development Services	1 398	-53	11	2 978	2 114	1 632	3 075
Service Lines total	11 799	-9	91	12 971	12 568	12 190	13 031
Industry Groups	475	14	4	415	415	468	409
Support Functions and Global Management	675	-9	5	739	738	688	740
Group total	12 949	-8	100	14 126	13 720	13 346	14 180

Personnel by country

	End of period			Average			
	2015	Change	Share	2014	2014	2015	2014
	1-6	%	%	1-6	1-12	1-6	1-6
Finland	3 806	-13	29	4 352	4 122	4 012	4 358
Sweden	2 475	-4	19	2 574	2 548	2 523	2 618
Czech Republic	2 014	1	16	1 996	2 077	2 067	1 970
India	2 142	27	17	1 688	1 979	2 073	1 624
China	264	-66	2	778	379	312	867
Latvia	692	1	5	687	680	694	691
Poland	436	-29	3	611	507	457	660
Norway	415	-1	3	420	417	419	430
Philippines	0	-100	0	239	227	66	236
Lithuania	119	-4	1	125	122	122	128
Other	585	-11	5	656	662	602	597
Group total	12 949	-8	100	14 126	13 720	13 346	14 180
Onshore countries	6 989	-9	54	7 645	7 386	7 246	7 923
Offshore countries	5 960	-8	46	6 481	6 334	6 099	6 257
Group total	12 949	-8	100	14 126	13 720	13 346	14 180

Non-current assets by country, EUR million

	2015 30 Jun	2014 30 Jun	Change %	2014 31 Dec
Finland	79.4	92.1	-14	84.6
Sweden	24.2	27.0	-10	24.6
Other	5.1	7.7	-33	5.8
Total non-current assets	108.7	126.8	-14	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	2015	2014	Change	2014
	4-6	4-6	%	1-6	1-6	%	1-12
Managed Services	12.3	13.0	-5	24.2	25.4	-5	50.8
Consulting and System Integration	0.1	0.2	-15	0.4	0.4	7	0.7
Industry Products	0.1	0.1	60	0.3	0.2	47	0.4
Product Development Services	0.1	0.1	15	0.2	0.2	-15	1.0
Support Functions and Global Management	1.6	2.1	-22	3.6	4.3	-15	10.7
Group total	14.3	15.4	-7	28.6	30.4	-6	63.5

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

	2015	2014	Change	2015	2014	Change	2014
	4-6	4-6	%	1-6	1-6	%	1-12
Managed Services	-	-	-	-	0.2	-	0.2
Consulting and System Integration	0.1	0.1	-56	0.1	0.2	-55	0.5
Industry Products	0.1	0.1	-2	0.1	0.2	-3	0.3
Product Development Services	-	-	-	-	-	-	-
Support Functions and Global Management	-	-	-	-	-	-	-
Group total	0.1	0.2	-35	0.2	0.6	-58	1.0

Impairment losses by service line, EUR million

	2015	2014	Change	2015	2014	Change	2014
	4-6	4-6	%	1-6	1-6	%	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 30 Jun	2014 31 Dec
For Tieto obligations		
Guarantees		
Performance guarantees	27.7	27.3
Lease guarantees	10.0	9.9
Other	1.3	0.2
Other Tieto obligations		
Rent commitments due in one year	40.3	44.7
Rent commitments due in 1–5 years	92.7	100.3
Rent commitments due after 5 years	17.2	11.3
Operating lease commitments due in one year	5.7	6.5
Operating lease commitments due in 1–5 years	8.1	8.6
Operating lease commitments due after 5 years	0.7	0.7
Commitments to purchase assets	9.6	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 30 Jun	2014 31 Dec
Foreign exchange forward contracts	269.9	160.1
Forward contracts outside hedge accounting	236.5	115.7
Forward contracts within hedge accounting	33.4	44.4
Currency options	22.8	-
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 30 Jun	2014 31 Dec
Foreign exchange forward contracts	-	-0.4
Currency options	-	-
Electricity price futures contracts	-0.1	-0.1

Derivatives are used for economic hedging purposes only.

Gross positive fair values of derivatives	2015 30 Jun	2014 31 Dec
Foreign exchange forward contracts	1.7	1.4
Forward contracts outside hedge accounting	1.3	1.4
Forward contracts within hedge accounting ¹⁾	0.4	-
Currency options	0.1	-
Electricity price futures contracts	-	-

Gross negative fair values of derivatives	2015 30 Jun	2014 31 Dec
Foreign exchange forward contracts	-1.7	-1.8
Forward contracts outside hedge accounting	-1.6	-1.4
Forward contracts within hedge accounting ¹⁾	-0.1	-0.4
Currency options	-0.1	-
Electricity price futures contracts	-0.1	-0.1

¹⁾ Forward contracts within hedge accounting (net)	0.3	-0.4
The amount recognized in equity	0.3	-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 10 months. Gains and losses, recognized in the hedging reserve in equity (note Other reserves) on forward foreign exchange contracts as of 30 June 2015 amounted to net EUR 0.0 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 10 months.

The efficient portion of cash flow hedges recognized in net sales at 30 June 2015 amounted to a gain of EUR 0.3 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 30 June 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 30 June 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	0.9
Fair value losses in year	-0.2
Tax on fair value gains	0.0
Tax on fair value losses	-0.1
Balance at 30 Jun 2015	0.3

Fair value measurement of financial assets and liabilities

EUR million

30 Jun 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	1.8	-	1.8
Available-for-sale investments	-	-	0.7	0.7
Financial liabilities at fair value through profit or loss				
Derivatives	-	-1.9	-	-1.9

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 4-6	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Earnings per share, EUR						
Basic	0.24	0.12	0.09	-0.17	0.23	0.34
Diluted	0.24	0.12	0.09	-0.17	0.23	0.34
Equity per share, EUR	5.69	5.45	6.44	6.52	6.70	6.56
Return on equity, 12-month rolling, %	4.5	4.5	7.1	8.7	15.3	13.5
Return on capital employed, 12-month rolling, %	7.5	7.7	9.8	10.4	14.8	15.3
Equity ratio, %	44.8	39.6	47.8	51.4	48.7	44.9
Interest-bearing net debt, EUR million	5.3	-85.9	-59.2	25.7	30.3	-20.5
Gearing, %	1.3	-21.5	-12.6	5.4	6.2	-4.3
Investments, EUR million	10.6	11.6	12.9	10.1	7.1	13.4

Income statement, EUR million

	2015 4-6	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Net sales	363.8	365.6	402.9	346.2	386.4	387.0
Other operating income	4.8	5.0	7.0	3.5	3.8	3.8
Employee benefit expenses	-212.2	-225.1	-226.5	-182.8	-219.3	-217.4
Depreciation, amortization and impairment charges	-14.4	-14.5	-18.0	-55.0	-15.6	-15.4
Other operating expenses	-120.0	-118.3	-157.2	-117.4	-135.1	-125.1
Share of profit from investments accounted for using the equity method	1.1	1.2	1.3	1.6	1.3	1.1
Operating profit (EBIT)	23.1	13.9	9.5	-3.9	21.5	34.0
Financial income and expenses	-1.3	-1.7	-0.9	-1.4	-1.0	-1.2
Profit before taxes	21.8	12.2	8.6	-5.3	20.5	32.8
Income taxes	-4.4	-3.1	-1.9	-7.5	-4.0	-8.2
Net profit for the period	17.4	9.1	6.7	-12.8	16.5	24.6

Balance sheet, EUR million

	2015 30 Jun	2015 31 Mar	2014 31 Dec	2014 30 Sep	2014 30 Jun	2014 31 Mar
Goodwill	327.5	327.0	323.7	329.5	367.5	371.1
Other intangible assets	30.4	32.3	32.8	39.5	41.3	43.2
Property, plant and equipment	78.3	80.4	82.2	82.2	85.4	93.2
Investments accounted for using the equity method	16.3	15.1	19.3	19.7	18.1	16.7
Other non-current assets	33.3	35.7	34.9	31.2	33.9	30.5
Total non-current assets	485.8	490.5	492.9	502.1	546.2	554.7
Trade receivables and other current assets	393.3	394.7	378.0	390.4	411.7	437.5
Cash and cash equivalents	112.2	184.8	160.6	84.4	99.6	136.3
Total current assets	505.5	579.5	538.6	474.8	511.3	573.8
Total assets	991.3	1 070.0	1 031.5	976.9	1 057.5	1 128.5
Total equity	418.2	399.5	471.2	477.0	489.8	476.2
Non-current loans	100.2	100.5	100.8	101.7	101.6	102.1
Other non-current liabilities	59.7	63.2	64.2	56.8	54.3	56.5
Total non-current liabilities	159.9	163.7	165.0	158.5	155.9	158.6
Trade payables and other current liabilities	352.3	461.0	352.2	297.4	346.6	439.1
Provisions	33.4	36.7	31.3	23.5	25.1	33.6
Current loans	27.5	9.1	11.8	20.5	40.1	21.0
Total current liabilities	413.2	506.8	395.3	341.4	411.8	493.7
Total equity and liabilities	991.3	1 070.0	1 031.5	976.9	1 057.5	1 128.5

Cash flow, EUR million

	2015 4–6	2015 1–3	2014 10–12	2014 7–9	2014 4–6	2014 1–3
Cash flow from operations						
Net profit	17.4	9.1	6.7	-12.8	16.5	24.6
Adjustments	20.6	17.1	18.3	62.2	18.5	23.4
Change in net working capital	-16.2	12.9	66.0	-32.7	-18.6	2.7
Cash generated from operations	21.8	39.1	91.0	16.7	16.4	50.7
Net financial expenses paid	-3.1	-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	-6.3	-7.3	1.5	-5.5	3.3	-6.3
Net cash flow from operations	12.4	36.7	90.2	11.1	16.6	50.0
Net cash used in investing activities	-10.1	-11.0	-8.4	-7.1	-11.3	-12.1
Net cash used in financing activities	-74.3	-2.6	-8.6	-19.1	-42.7	-14.4
Change in cash and cash equivalents	-72.0	23.1	73.2	-15.1	-37.4	23.5
Cash and cash equivalents at the beginning of period	184.8	160.6	84.4	99.6	136.3	114.1
Foreign exchange differences	-0.6	1.1	3.0	-0.1	0.7	-1.3
Change in cash and cash equivalents	-72.0	23.1	73.2	-15.1	-37.4	23.5
Cash and cash equivalents at the end of period	112.2	184.8	160.6	84.4	99.6	136.3

QUARTERLY FIGURES BY SEGMENTS

Customer sales by service line, EUR million

	2015 4–6	2015 1–3	2014 10–12	2014 7–9	2014 4–6	2014 1–3
Managed Services	131	126	131	121	132	127
Consulting and System Integration	101	99	107	84	97	100
Industry Products	98	94	107	91	97	100
Product Development Services	33	47	58	51	60	60
Group total	364	366	403	346	386	387

Customer sales by industry group, EUR million

	2015 4–6	2015 1–3	2014 10–12	2014 7–9	2014 4–6	2014 1–3
Financial Services	88	84	90	77	84	83
Manufacturing, Retail and Logistics	77	78	82	73	78	79
Public, Healthcare and Welfare	107	101	115	91	104	100
Telecom, Media and Energy	58	57	59	54	60	65
Product Development Services	33	47	58	51	60	60
Group total	364	366	403	346	386	387

Operating profit (EBIT) by service line, EUR million

	2015 4-6	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Managed Services	3.1	-8.3	8.2	11.0	7.6	10.9
Consulting and System Integration	8.5	8.2	10.4	7.2	6.1	11.1
Industry Products	10.8	12.6	17.4	20.3	15.0	15.5
Product Development Services	5.7	6.5	-4.4	-37.4	-2.3	1.1
Support Functions and Global Management	-5.0	-5.0	-22.1	-5.0	-4.8	-4.6
Operating profit (EBIT)	23.1	13.9	9.5	-3.9	21.5	34.0

Operating margin (EBIT) by service line, %

	2015 4-6	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Managed Services	2.4	-6.6	6.2	9.0	5.8	8.5
Consulting and System Integration	8.4	8.3	9.8	8.6	6.3	11.1
Industry Products	11.0	13.3	16.3	22.4	15.3	15.4
Product Development Services	17.1	14.0	-7.5	-73.0	-3.8	1.9
Operating margin (EBIT)	6.3	3.8	2.4	-1.1	5.6	8.8

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

	2015 4-6	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Managed Services	9.9	4.6	9.0	11.1	7.6	10.7
Consulting and System Integration	8.7	10.8	10.2	9.7	7.2	11.2
Industry Products	12.0	12.7	19.6	20.2	15.2	15.4
Product Development Services	3.2	6.5	11.9	4.6	3.7	1.6
Support Functions and Global Management	-3.6	-3.9	-6.3	-4.2	-3.7	-4.4
Operating profit (EBIT)	30.1	30.7	44.4	41.3	30.0	34.5

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

	2015 4-6	2015 1-3	2014 10-12	2014 7-9	2014 4-6	2014 1-3
Managed Services	7.6	3.6	6.9	9.1	5.8	8.4
Consulting and System Integration	8.6	10.8	9.5	11.6	7.4	11.2
Industry Products	12.2	13.4	18.3	22.3	15.6	15.4
Product Development Services	9.6	14.0	20.5	8.9	6.1	2.6
Operating margin (EBIT)	8.3	8.4	11.0	11.9	7.8	8.9

Major shareholders on 30 June 2015

	Shares	%
1 Cevian Capital *)	11 073 614	15.0
2 Solidium Oy	7 415 418	10.0
3 Silchester International Investors LLP **)	7 401 027	10.0
4 Ilmarinen Mutual Pension Insurance Co.	1 858 840	2.5
5 Swedbank Robur fonder	1 573 448	2.1
6 The State Pension fund	823 000	1.1
7 Varma Mutual Pension Insurance Co.	793 488	1.1
8 Nordea funds	755 029	1.0
9 Evli funds	561 209	0.8
10 Svenska litteratursällskapet i Finland r.f.	541 345	0.7
Top 10 shareholders total	32 796 418	44.3
- of which nominee registered	20 048 089	27.1
Nominee registered other	25 859 402	35.0
Others	15 320 981	20.7
Total	73 976 801	100.0

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

*) Based on the flagging announcement on 15 April 2015, Cevian Capital's holding was 11 073 614 shares, representing 15.0% of the shares and voting rights.

**) On 23 June 2015, Silchester International Investors LLP announced that its holding in Tieto Corporation was 7 401 027 shares, which represents 10.0% of the shares and voting rights.

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Press conference for analysts and media will be held on 22 July 2015 at Tieto's premises in Helsinki, address: Aku Korhosen tie 2–6, 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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