Q4 2015
Financial Statement Release
January–December

Strong fourth-quarter results – all businesses performing well

- Organic growth of 3% in IT services driven by Industry Products
- Reported operating margin of 12% driven by healthy business mix and Managed Services automation programme
- Product Development Services business well stabilized
- Acquisitions accelerate shift towards growth businesses

Key figures for the fourth quarter

IT services
- Organic growth in local currencies was 2.8%
- Operating profit excl. one-off items amounted to EUR 48.3 (32.5) million, 13.3% (9.4) of sales

The Group
- Organic growth in local currencies was -2.9% – affected by lower business volumes in Product Development Services as announced in 2014
- Fourth-quarter operating profit excl. one-off items amounted to EUR 51.4 (44.4) million, 13.0% (11.0) of sales
- Order intake (Total Contract Value) amounted to EUR 641 (672) million and order backlog was EUR 2 030 (1 784) million

Key figures for the full year

IT services
- Organic growth in local currencies was 2.7%
- Operating profit excl. one-off items amounted to EUR 136.2 (128.5) million, 10.3% (9.9) of sales

The Group
- Organic growth in local currencies was -2.6% – affected by lower business volumes in Product Development Services as announced in 2014
- Full-year operating profit excl. one-off items amounted to EUR 150.8 (150.2) million, 10.3% (9.9) of sales
- Proposed dividend EUR 1.10 (1.00) per share, up by 10%, and an additional dividend of EUR 0.25 (0.30)
- Dividend yield of 5.5%, or 4.4% excluding additional dividend

	10–12/2015	10–12/2014	1–12/2015	1–12/2014
Net sales, EUR million	395.6	402.9	1 460.1	1 522.5
Change, %	-1.8	-0.6	-4.1	-5.3
Organic change in local currencies, %	-2.9	0.9	-2.6	-1.1
Operating profit (EBITA), EUR million	47.4	9.7	126.4	62.1
Operating margin (EBITA), %	12.0	2.4	8.7	4.1
Operating profit (EBIT), EUR million	46.8	9.5	125.2	61.1
Operating margin (EBIT), %	11.8	2.4	8.6	4.0
Operating profit (EBIT) excl. one-off items[1)], EUR million	51.4	44.4	150.8	150.2
Operating margin (EBIT) excl. one-off items[1)], %	13.0	11.0	10.3	9.9
Profit after taxes, EUR million	34.4	6.7	90.5	35.0
EPS, EUR	0.47	0.09	1.23	0.48
Net cash flow from operations, EUR million	67.1	90.2	132.6	167.9
Return on equity, 12-month rolling, %	19.0	7.1	19.0	7.1
Return on capital employed, 12-month rolling, %	20.4	9.8	20.4	9.8
Capital expenditure and acquisitions, EUR million	32.7	12.9	136.7	43.5
Interest-bearing net debt, EUR million	13.2	-59.2	13.2	-59.2
Net debt/EBITDA	0.1	-0.4	0.1	-0.4
Book-to-bill	1.6	1.7	1.3	1.2
Order backlog	2 030	1 784	2 030	1 784
Personnel on 31 December	13 083	13 720	13 083	13 720

[1)] Excl. restructuring costs, capital gains/losses, goodwill impairment charges and other one-off items

Full-year outlook for 2016

Tieto expects its adjusted[1)] full-year operating profit (EBIT) to increase from the previous year's level (EUR 150.8 million in 2015).

[1)] adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other one-off items

CEO's comment

Comment regarding the interim report by Kimmo Alkio, President and CEO:
"The year ended with strong fourth-quarter performance in terms of profitability development and growth of IT services. All our businesses had a good quarter, demonstrating continued improvement in competitiveness. Our industry-specific software solutions experienced strong growth, accelerated by the acquisition of Software Innovation. In parallel, we substantially improved the efficiency of our operations by automating our service deliveries as evident from Managed Services double-digit margin. Furthermore, our Product Development Services business has stabilized well.

To support innovation and longer-term growth, over the last few years we have continued to increase our annual, fully expensed investments in new service development from EUR 40 million to EUR 60 million, while continuing to improve profitability in line with our long-term objectives. In addition, the three acquisitions completed during 2015 add to the speed of service and cultural renewal. Recruitments in 2015 were also high at 1 800 in total, of which around 500 were new positions to support our capability development in emerging services. The recruitment of over 400 professionals in the Nordic countries further strengthens our position as the leading advisor in our core markets.

Our industry continues to change at a rapid pace, thus opening up opportunities for growth and innovation. In light of our progress and renewal over the last few years, we look forward to an exciting 2016."

IT market development in 2015 and 2016

The overall IT services market grew by around 2% in the Nordic countries in 2015. The decline in traditional services coupled with the continued challenging macroeconomic environment in Finland will continue to affect overall market growth. IT market development is anticipated to be somewhat slower in Finland due to weak GDP growth while the Swedish market is expected to be active. In 2016, the market relevant for Tieto is estimated to grow by around 2%.

- In the financial services sector, the market is driven by customer experience, service digitalization, process automation and regulation both in the banking and insurance segments. The market for core system modernization is starting to pick up in both segments and customers are initiating transformation programmes with embedded global standard solutions. Interest in business process outsourcing is growing in connection with core business modernization and back-office automation. In Sweden, the market for business and technology consulting is at a good level. The renewal of the pension system in Finland is expected to generate demand in the pension segment during 2016.

- In the manufacturing and forest sector, uncertainty has somewhat increased in Finland while the ERP market has remained active all across the Nordic countries. Enterprises increasingly seek to enhance their business through new services enabled by industrial internet solutions while cost savings and automation in the demand supply chain are important drivers for initiating new IT projects.

- 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, 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. In Finland, there is good demand for shared infrastructure services based on the frame agreement concluded in 2014. The market for document and case management solutions is also healthy.

- In the healthcare and welfare sector, the key growth driver is the digitalization of services and processes. There is healthy demand for solutions such as mobile services for elderly people and eServices for welfare. In Finland, the market is somewhat affected by the weak financial situation while the reform in the healthcare and welfare sector will provide promising opportunities for Tieto.
- In the energy utility sector, the market for advanced metering infrastructure in energy distribution is growing, especially in Norway. 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, 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. Telecom operators are moving from customized solutions to sourcing of standardized packaged solutions. IT service providers are experiencing aggressive competition in this sector.

Market disruption provides new future opportunities

The changing behaviour of both consumers and corporate clients accelerates digitalization enabled by new technologies. It is already normal for consumers to have access to everything 24/7, including self-services and personalized digital experiences. This change is gradually hitting all industries and industrial processes. Based on the number of people with access to the internet, the amount of data is increasing exponentially. However, due to disruptive technologies, availability of capacity and number of connected devices are continuously on the rise. Technologies such as the cloud, big data, Internet of Things and robotics will lead to a new data-centric ecosystem where processes and interaction, often based on connected devices, are predictive and real-time.

Almost every business is affected by digitalization and disruption will accelerate. New opportunities arise not only within industries but also in new ecosystems in the intersection of multiple industries and consequently, traditional industry boundaries will be blurred. Tieto has identified several new domains of disruptive change, including digital payments, on-demand manufacturing, real-time retail, autonomous logistics, digital health management, smart home health and cybersecurity.

In seeking to ensure their market position in the rapidly changing competitive landscape, customers' focus has been shifting to the digitalization of their businesses. New agile architectures and automated environments are needed to speed up innovation and flexibly develop and release new applications. As user experience becomes an absolute requirement for digital enterprises, the role of IT vendors is becoming more strategic.

For IT service vendors, it is increasingly important to have strong industry and business insight, technology understanding and the ability to orchestrate new digital services for clients. Additionally, co-creation with partners and customers is becoming more important in order to provide customers with best-of-breed technologies. This trend is accelerated by increasing openness, as open APIs (application programming interface) and open data make collaborative innovation possible.

In IT spending, emerging services are gaining ground while traditional services, such as infrastructure services, are seen as a source of cost reductions. This trend has been enabled by service delivery standardization and industrialization. Going forward, IT service providers will continue their investments in automation and productivity improvements.

Solid strategy implementation and performance improvement

Solid strategy execution has resulted in a number of successes during the past years. Tieto has progressed in its transformation with a great focus on service renewal and efficient delivery supporting improved competitiveness. A full stack of services supports the company's ambition to become the preferred business and IT modernization partner for its clients and to assist customers in the rapidly changing environment with new technologies. Tieto's differentiation is based on leading industry-specific products in selected areas and the company continues to build on industry expertise to help customers seize new market opportunities and support renewal of customers' businesses.

In 2015, the pace of growth initiatives accelerated. Tieto implemented a number of acquisitions and focused on the development of chosen growth businesses by investing in offering development and recruiting new talent. Furthermore, the company prepared to launch a third start-up, Security Services, as announced in January 2016. The company also concluded several partnerships in order to be able to provide customers with best-of-breed technologies supplemented with a stack of Tieto's services and solutions. Examples include partnering up with Temenos, a market-leading banking software provider, and with Salesforce.com and Workday, a leading provider of enterprise cloud applications for finance and human resources. Tieto's strategy is continuing to evolve. Updates to the current strategy are currently being considered. The conclusions will be disclosed during the spring.

Acquisitions and divestments

In August, Tieto completed the 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 2015 the company's net sales amounted to around EUR 40 million. Around 75% of its sales come from Norway and the rest mainly from Sweden and Denmark.

In November, Tieto acquired Imano AB, a Swedish consulting company offering consulting services and helping its clients in the paper and forest industries digitalize their business processes. The acquisition supports Tieto's objective of becoming the largest IT services provider in the paper and forest industries in Sweden and Norway. The company has approximately 50 employees in Sweden and its net sales in 2015 amounted to around EUR 7 million.

In December, Tieto signed an agreement to acquire Smilehouse, the largest Finnish solution provider of multichannel commerce with operations primarily in Finland and Sweden. The acquisition strengthens Tieto's position as one of the leading Nordic players in digital Customer Experience Management and supports the company's aim of accelerating growth in this market. Smilehouse is a leading Finnish vendor in the digital commerce area, with a total of 75 employees. The acquisition substantially increases Tieto's sales in this area. Smilehouse's sales amounted to around EUR 10 million in 2015 and are anticipated to grow faster than the market.

In line with its target of reinforcing the focus of operations, Tieto agreed to sell its Lean System business in Finland in September. The divested business with its close to 40 employees offers services mainly to Finnish SME segment customers and as such was not a good fit for Tieto's strategy of focusing on medium-sized and large enterprises and customers in the public sector.

Service and competence renewal

Tieto aims to be at the forefront of efficient delivery of high-quality services and pursue new service models enabled by the ongoing market change. The company continues to renew and strengthen its service portfolio and competencies in order to be a preferred digitalization partner to customers. In 2015, Tieto recruited new competences to match its needs in new service areas. New roles include industry consultants, digital architects, user experience designers and software developers, among others. By the end of December, Tieto had recruited around 500 new employees. Recruitments were mainly implemented in the first half. On the other hand, new services are less labour-intensive and automation via self-service channels will reduce the need for certain existing roles. Tieto has also invested in sales by recruiting new sales people. This has somewhat increased sales costs in IT services.

Tieto stepped up its investments in offering development in 2015 with a view to ensuring its position as a preferred digitalization advisor and enhancing scalability. By industrializing its application management and infrastructure services, the company drives quality, speed, efficiency and customer experience. Full-year offering development costs for IT services exceeded the previous year's level by around EUR 10 million. Additionally, the full-year results were affected by costs related to the automation programme in Managed Services. The increase of EUR 5 million in costs materialized in the first half of 2015. Development costs amounted to around EUR 60 million in 2015, representing over 4% of Group sales.

Tieto targeted its most extensive offering development measures at selected high-growth services, seeking to grow faster than the market in the longer term. Annual sales of the following emerging services amounted to over EUR 260 million, and growth totalled 20%:

- Customer Experience Management
- Lifecare
- Industrial Internet
- Cloud services
- Security services,
  a new start-up to combat modern cyber security attacks, launched in January 2016. The established unit will enhance the company's current business in this area and will be one of selected growth services Tieto will invest in.

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 on the holistic use of digital services, enabling better marketing, sales and service across all digital channels. The Nordic market is expected to grow by an annual rate of around 20% in the coming years.

To harness the growing opportunities within omni-commerce, Tieto acquired Smilehouse, the largest Finnish solution provider in the area, in December. Based on their combined expertise, the CEM start-up can offer truly comprehensive omni-channel solutions and services to a larger group of customers, reaching beyond Retail and Finance services to also cover Manufacturing, Telecom and Energy. Tieto also increased its investments in this area and recruited new talent in 2015 to strengthen its thought leadership position in its home markets. In 2015, around 140 new experts joined the team, including Smilehouse employees. In 2015, Tieto’s sales in this area amounted to around EUR 30 million, with growth totalling 20%.

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. This was a focus area in offering development in 2015 and Tieto has also recruited more personnel to support its growth ambitions. Key applications are designed for areas such as mobile homecare, education and eServices for citizens. Solution development is based on modularity. Certified open interfaces support the ecosystem and the integration of diverse third-party applications and services in the system. In 2016, a significant number of Tieto’s public healthcare customers are expected to transfer to Lifecare. In 2015, Tieto’s sales in this area amounted to over EUR 160 million, representing growth of 6%.

Industrial Internet

Industrial Internet applications are rapidly gaining ground, integrating the internet into a wide range of everyday devices. Aside from improving automation and providing savings, new applications also provide new business opportunities for enterprises, including IT service providers. Industrial Internet 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. 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.

Shaping the offerings and solution productization were focus areas for Tieto in 2015. Tieto introduced a number of solutions, including

- Real Time Factory for manufacturing companies to digitalize factories to the era of Industry 4.0
- eSense, a solution to support smart home care
- VITAL, a solution with analytics for various applications in fleet monitoring and maintenance management
- M2M-In-a-Box, service co-developed with TeliaSonera and currently part of TeliaSonera’s IoT product portfolio

Towards the year end, the development of the Tieto Connect platform intensified. Launched in January, this new cloud-based platform enables companies to compose their own Internet of Things application in minutes. Tieto Industrial Internet was ranked high for innovation in market reviews, including a recognition for innovation in a global benchmark study by HfS. In 2015, Tieto’s investments in Industrial Internet amounted to around EUR 4 million while sales remained below this figure.

Cloud services

The market for transferring operations into scalable and standardized 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.

In Managed Services, growth was driven by sales of enterprise cloud offerings, such as Tieto Cloud Server, Tieto Productivity Cloud and Tieto Dynamic Landscape for SAP. Additionally, cloud transformation services have also become an essential part of any outsourcing case. In late 2015, Tieto launched two new offerings, Tieto Enterprise Cloud Orchestrator (TECO), and Tieto Dynamic Landscape for databases (powered by Oracle). TECO automates customers’ end-to-end application lifecycle management and the deployment of infrastructure and thereby helps customers innovate and deploy new digital products and services in a more agile way. As TECO speeds up the development and release of applications in a multi-vendor environment, it enables companies and organizations to significantly reduce the time needed to deploy new services while at the same time cutting costs. Sales of cloud services grew by 65% in 2015 and currently represent around 17% of Managed Services’ sales.

Security services

According to a recent study, 90% of businesses worldwide recognize that they are insufficiently prepared to protect themselves against cyber risks. To help customers in the increasingly complex IT security environment and to seize the security-related market opportunities, Tieto launched its Security Services start-up within the company in January 2016. Tieto´s Security Services are developed to secure the digital operations of enterprises and public sector organizations. The managed security services model will help any organization to achieve visibility, simplicity and protection for their digital assets. Tieto's Security Wall, offers unique, real-time transparency and information to lead security by monitoring digital security 24/7. Tieto has appointed Markus Melin, security expert from F-Secure, to lead the Security Services start-up. The cybersecurity market is forecast to grow by about 10% (GAGR) until 2020 and the managed security services market at an even faster rate.

Performance drivers in 2016

In IT services, Tieto aims to grow faster than the market in 2016. Sales for the companies acquired amounted to a total of EUR 57 million in 2015, of which EUR 17 million was visible in Tieto's sales for 2015.

The trend in profitability is also expected to remain favourable. In addition to sales growth, performance drivers in 2016 include

- automation in Managed Services and industrialization in application management
- offering development and
- recruitments in new service areas.

In January 2015, Tieto announced a programme related to the ongoing automation in Managed Services and industrialization in application management. Of the planned reductions, 650 were anticipated to affect the Managed Services and 190 the Consulting and System Integration service lines. By the end of December, Managed Services had implemented over 500 of the planned reductions. In Consulting and System Integration, around 100 reductions had materialized, including voluntary leaves and internal mobility. The implementation of the measures will continue in 2016. These reductions are anticipated to result in gross savings of around EUR 50 million, of which around EUR 20 million materialized in 2015.

Service and competence renewal is expected to continue in 2016. The impact of gross savings on the IT services cost base will be partly offset by continued recruitments of new talent within growth areas. In 2016, Tieto will continue to increase its investments in offering development in promising growth areas. Offering development costs are anticipated to increase from 2015 and to amount to over 4% of Group sales in 2016.

In Product Development Services, sales for the first quarter of 2016 will be affected by insourcing by one key customer whose projects ended at the beginning of the second quarter of 2015. As the efficiency measures undertaken have resulted in a healthy cost structure for the existing business, the normalized underlying operating margin is expected to remain in a range below 10%.

Tieto anticipates that its restructuring costs will amount to less than 2% of sales, including costs related to the programme announced in January 2015. Capital expenditure (CAPEX) is anticipated to remain at around 3–4% of Group sales.

Financial performance in October–December

Fourth-quarter net sales amounted to EUR 395.6 (402.9) million, down by 1.8%. Organically, net sales in local currencies were down by 2.9%. The decline was attributable to large projects that were concluded in Product Development Services, as announced in October 2014. The acquisitions added EUR 14 million in sales, mainly affecting Industry Products, as detailed in the table published on Tieto's website at www.tieto.com/investors. Divestments had a negative impact of EUR 4 million. Currency fluctuations had a negative impact of EUR 4 million on sales, mainly due to the weaker Norwegian Krona. In IT services, net sales in local currencies were organically up by 2.8%.

Fourth-quarter operating profit (EBIT) amounted to EUR 46.8 (9.5) million, representing a margin of 11.8% (2.4). Operating profit included EUR 4.6 million in restructuring costs and operating profit excl. one-off items[1)] stood at EUR 51.4 (44.4) million, or 13.0% (11.0) of net sales. For IT services, operating profit excl. one-off items rose to EUR 48.3 (32.5) million mainly thanks to the healthy business mix and Managed Services automation programme.

Cost savings, mainly related to the automation programme in Managed Services and industrialization of application management services, had a positive effect of over EUR 10 million on IT services' operating profit compared with the fourth quarter of 2014 while the positive impact of gross savings was curbed by salary inflation of around EUR 5 million and recruitments in new service areas. Underlying personnel expenses (excl. cost savings and salary inflation) were on the rise in the fourth quarter due to recruitments in emerging service areas. Tieto recruited around 500 new competences during 2015.

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

Offering development costs remained at the previous year's level. Currency changes had a negative impact of EUR 1 million on operating profit. The negative effect was mainly attributable to the Norwegian Krona.

Depreciation and amortization amounted to EUR 13.7 (18.0) million. Net financial expenses stood at EUR 1.0 (0.9) million in the fourth quarter. Net interest expenses were EUR 0.6 (0.5) million and net loss from foreign exchange transactions EUR 0.2 (0.1) million. Other financial income and expenses amounted to EUR -0.2 (-0.3) million.

Earnings per share (EPS) totalled EUR 0.47 (0.09). Earnings per share excluding one-off items[1)] amounted to EUR 0.51 (0.47).

[1)] Excl. restructuring costs, capital gains/losses, goodwill impairment charges and other one-off items

Financial performance by service line

EUR million	Customer sales 10–12 /2015	Customer sales 10–12 /2014	Change, %	Operating profit 10–12 /2015	Operating profit 10–12 /2014
Managed Services	132	131	1	18.4	8.2
Consulting and System Integration	109	107	2	8.8	10.4
Industry Products	121	107	13	25.2	17.4
Product Development Services	33	58	-43	2.8	-4.4
Support Functions and Global Management				-8.3	-22.1
Total	**396**	**403**	**-2**	**46.8**	**9.5**

Operating margin by service line

%	Operating margin 10–12 /2015	Operating margin 10–12 /2014	Operating margin excl. one-off items[1)] 10–12 /2015	Operating margin excl. one-off items[1)] 10–12 /2014
Managed Services	13.9	6.2	13.0	6.9
Consulting and System Integration	8.1	9.8	10.3	9.5
Industry Products	20.8	16.3	21.4	18.3
Product Development Services	8.4	-7.5	9.4	20.5
Total	**11.8**	**2.4**	**13.0**	**11.0**

[1)] Excl. restructuring costs, capital gains/losses, goodwill impairment charges and other one-off items

Organic change in local currency by service line

	Customer sales adj. for acquisitions and currency 10–12 /2015	Customer sales adj. for divestments 10–12 /2014	Change, %
Managed Services	133	131	1
Consulting and System Integration	108	107	2
Industry Products	111	105	6
IT services	**353**	**343**	**3**
Product Development Services	33	54	-39
Total	**386**	**397**	**-3**

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

In Managed Services, sales of cloud services continued to grow while the market for traditional services was down. Sales of cloud services were up by 39% compared with the corresponding quarter in 2014 and represented 17% of Managed Services sales. Operating profit excl. one-off items rose to EUR 17.2 (9.0) million, mainly due to the savings related to the automation programme aiming at improving customer experience, competitiveness and efficiency of delivery. The first quarter of 2016 is expected to be seasonally weaker than the fourth quarter.

In Consulting and System Integration, demand remained strongest in packaged solutions, industry consulting and Customer Experience Management, fortified by the acquisition of Smilehouse in December. At the same time, the market for traditional, customized application management continued to decline. Operating profit excl. one-off items amounted to EUR 11.3 (10.2) million. The fourth quarter saw some positive impact from savings related to application management industrialization. Additionally, improvement was attributable to lower offering development costs. On the other hand, improvement was curbed by costs related to recruitments to support future growth. Some volatility in margins is anticipated to continue in the first quarter. There is some short-term pressure on both volumes and prices, especially in application management. Tieto will continue to drive industrialization of its service deliveries.

Industry Products saw healthy growth with the strongest development in Financial Services and Healthcare and Welfare, up by 14% and 4%, respectively. Additionally, the acquisition of Software Innovation added EUR 12 million to sales. Demand in the oil and gas segment remained weak and sales continued to decline. Strong profitability improvement was mainly attributable to growth and efficiency improvement. Offering development costs continued to rise, up by close to EUR 2 million, mainly in Lifecare and Industrial Internet. The first quarter is expected to be seasonally weaker and, additionally, investments in offering development will continue.

In Product Development Services (PDS), sales to some global customers, leading in their field, have continued to increase while growth was offset by insourcing by one key customer whose projects ended in the first quarter. There is accelerated interest and increased demand in telecom cloud network function virtualization and PDS has gained new wins in this area. Operating profit was down due to the fact that the figure for the fourth quarter in 2014 was exceptionally high, as it included income related to temporary commercial terms. Efficiency measures undertaken in 2014 have resulted in a healthy cost structure for the existing business. Operating margin expected to normalize to a range below 10%.

Customer sales by industry group

EUR million	Customer sales 10–12 /2015	Customer sales 10–12 /2014	Change, %
Financial Services	92	90	2
Manufacturing, Retail and Logistics	78	82	-5
Public, Healthcare and Welfare	133	115	16
Telecom, Media and Energy	59	59	-1
IT services	**363**	**345**	**5**
Product Development Services	33	58	-43
Total	**396**	**403**	**-2**

Organic change in local currency by industry group

EUR million	Customer sales adj. for acquisitions and currency 10–12 /2015	Customer sales adj. for divestments 10–12 /2014	Change, %
Financial Services	93	90	4
Manufacturing, Retail and Logistics	78	80	-3
Public, Healthcare and Welfare	121	115	6
Telecom, Media and Energy	60	59	2
IT services	**353**	**343**	**3**
Product Development Services	33	54	-39
Total	**386**	**397**	**-3**

In Financial Services, demand remained good all across the banking and insurance segments, especially in Sweden and global payments markets. Sales growth was driven by Industry Products with strong performance in a number of solutions, such as Payments and Bank as a Service solutions in the SME segment.

In Manufacturing, Retail and Logistics, positive development continued in the manufacturing and forest sectors due to several new agreements. Fourth-quarter sales was affected by delayed investment decisions in the retail sector in Finland.

In Public, Healthcare and Welfare, sales in local currencies were organically up by 6%. Additionally, the acquisition of Software Innovation added around EUR 12 million to sales. Organic growth was mainly attributable to the healthcare and welfare sector and the public sector in Finland.

In Telecom, Media and Energy, sales in local currencies were growing due to continued positive development in the telecom and energy utilities segments. Sales in the media segment as well as the oil and gas segment continued to slide due to challenging market conditions.

Financial performance in January–December

Full-year net sales amounted to EUR 1 460.1 (1 522.5) million, down by 4.1%. Organically, net sales in local currencies were down by 2.6%. The decline was attributable to large projects that were concluded in Product Development Services, as announced in October 2014. Currency fluctuations had a negative impact of EUR 28 million on sales, mainly due to the weaker Swedish and Norwegian Krona and Russian Ruble. The acquisitions added EUR 17 million in sales, mainly affecting Industry Products, as detailed in the table published on Tieto’s website at www.tieto.com/investors. Divestments had a negative impact of EUR 15 million. In IT services, net sales in local currencies were organically up by 2.7%.

Full-year operating profit (EBIT) amounted to EUR 125.2 (61.1) million, representing a margin of 8.6% (4.0). Operating profit included EUR 31.7 million in restructuring costs, EUR 6.2 million in capital gains related to the divestment of the Lean System business and a EUR -0.1 million adjustment for the divestment of the UK forest business in 2013. Operating profit excl. one-off items[1)] stood at EUR 150.8 (150.2) million, or 10.3% (9.9) of net sales. Operating profit excl. one-off items for IT services amounted to EUR 136.2 (128.5) million.

Tieto increased its investments in growth businesses and profitability was also affected by costs related to the automation programme in Managed Services. Costs, including development and temporary overlapping costs due to the transition related to the automation programme, increased by EUR 15 million in the full year. Currency changes had a negative impact of EUR 9 million on operating profit. The negative effect was mainly attributable to the Swedish and Norwegian Krona and Russian Ruble. The result-based bonus accruals were EUR 29.7 (27.5) million.

Efficiency measures, including cost savings related to the automation programme in Managed Services and industrialization of application management services, had a positive effect of around EUR 30 million on IT services’ operating profit while the positive impact of gross savings was curbed by salary inflation of around EUR 20 million and recruitments in new service areas. Underlying personnel expenses (excl. cost savings and salary inflation) were on the rise in the fourth quarter due to recruitments in emerging service areas. Tieto recruited around 500 new competences during 2015.

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

Depreciation, impairment and amortization amounted to EUR 56.6 (104.0) million. The comparison figure includes goodwill impairment of EUR 39.6 million. Net financial expenses stood at EUR 5.9 (4.5) million in the full year. Net interest expenses were EUR 2.2 (2.8) million and net losses from foreign exchange transactions EUR 2.4 (0.8) million. Other financial income and expenses amounted to EUR -1.3 (-0.9) million.

Full-year earnings per share (EPS) totalled EUR 1.23 (0.48). Earnings per share excluding one-off items[1)] amounted to EUR 1.51 (1.56).

[1)] Excl. restructuring costs, capital gains/losses, goodwill impairment charges and other one-off items

Financial performance by service line

EUR million	Customer sales 1–12/2015	Customer sales 1–12/2014	Change, %	Operating profit 1–12/2015	Operating profit 1–12/2014
Managed Services	511	512	0	29.9	37.6
Consulting and System Integration	398	387	3	30.0	34.9
Industry Products	410	395	4	72.5	68.1
Product Development Services	142	229	-38	15.6	-42.9
Support Functions and Global Management				-22.8	-36.5
Total	**1 460**	**1 522**	**-4**	**125.2**	**61.1**

Operating margin by service line

%	Operating margin 1–12/2015	Operating margin 1–12/2014	Operating margin excl. one-off items[1)] 1–12/2015	Operating margin excl. one-off items[1)] 1–12/2014
Managed Services	5.9	7.3	9.5	7.5
Consulting and System Integration	7.5	9.0	9.0	9.9
Industry Products	17.7	17.3	16.7	17.8
Product Development Services	11.0	-18.7	10.3	9.5
Total	**8.6**	**4.0**	**10.3**	**9.9**

[1)] Excl. restructuring costs, capital gains/losses, goodwill impairment charges and other one-off items

Organic change in local currency by service line

EUR million	Customer sales adj. for acquisitions and currency 1–12/2015	Customer sales adj. for divestments 1–12/2014	Change, %
Managed Services	518	512	1
Consulting and System Integration	401	387	4
Industry Products	408	394	4
IT services	**1 327**	**1 291**	**3**
Product Development Services	142	216	-34
Total	**1 469**	**1 507**	**-3**

In Managed Services, sales of cloud services continued to grow while the market for traditional services was down. Sales of cloud services were up by 65% and represented 17% of Managed Services' sales. Operating profit excl. one-off items rose to EUR 48.5 (38.4) million, mainly due to the savings related to the automation programme aiming at improving customer experience, competitiveness and efficiency of delivery.

In Consulting and System Integration, the business developed favourably. Demand for Customer Experience Management services, industry consulting and packaged solutions was good while traditional application management experienced price erosion and reduced revenues. Operating profit excl. one-off items amounted to EUR 36.0 (38.3) million, somewhat down due to higher recruitments related to growth businesses and service and competence renewal. Investments are targeted at growth businesses and service delivery industrialization. Savings from personnel reductions related to service delivery industrialization contributed to profitability towards the year end.

Industry Products saw healthy growth with the strongest development in Financial Services and Healthcare and Welfare, up by 7% and 6%, respectively. Additionally, the acquisition of Software Innovation added around EUR 16 million to sales. Demand in the oil and gas segment was weak and sales declined. Profitability was affected by the increase of EUR 9 million in offering development costs. Investments were targeted mainly at Lifecare and Industrial Internet.

In Product Development Services (PDS), the sales decline was attributable to insourcing by one key customer whose projects ended in the first quarter, as announced in 2014. Business development with the current customer base remained relatively stable. Combined sales to the current largest customers were at the previous year’s level. Furthermore, there is accelerated interest in telecom cloud network function virtualization. Thanks to the increased demand, PDS gained new wins in this area. Efficiency measures undertaken in 2014 resulted in a healthy cost structure for the existing business.

Customer sales by industry group

EUR million	Customer sales 1–12/2015	Customer sales 1–12/2014	Change, %
Financial Services	347	335	4
Manufacturing, Retail and Logistics	307	311	-1
Public, Healthcare and Welfare	439	410	7
Telecom, Media and Energy	227	238	-5
IT services	**1 318**	**1 293**	**2**
Product Development Services	142	229	-38
Total	**1 460**	**1 522**	**-4**

Organic change in local currency by industry group

EUR million	Customer sales adj. for acquisitions and currency 1–12/2015	Customer sales adj. for divestments 1–12/2014	Change, %
Financial Services	355	335	6
Manufacturing, Retail and Logistics	308	310	-1
Public, Healthcare and Welfare	430	410	5
Telecom, Media and Energy	234	238	-2
IT services	**1 327**	**1 291**	**3**
Product Development Services	142	216	-34
Total	**1 469**	**1 507**	**-3**

In Financial Services, growth was healthy across all service lines, Industry Products, CSI and Managed Services. Both existing large customers and a number of Industry Products’ customers outside the Nordic countries contributed to growth. Sales in Eastern Europe were still down due to the challenging market conditions.

In Manufacturing, Retail and Logistics, sales in local currencies remained at the previous year's level. The manufacturing and forest sectors saw positive development due to several new agreements while the retail sector experienced negative development due to the expiry of some large contracts and delayed investment decisions in Finland.

In Public, Healthcare and Welfare, sales in local currencies were organically up by 5%, mainly due to new contracts concluded during the year. Additionally, the acquisition of Software Innovation added around EUR 16 million to sales. Organic growth was mainly attributable to the healthcare and welfare sector.

In Telecom, Media and Energy, sales in local currencies turned to growth towards the year end due to the positive development in the telecom and energy utilities segments. Sales in the media segment as well as the oil and gas segment were sliding due to challenging market conditions.

Cash flow, financing and investments

Fourth-quarter net cash flow from operations amounted to EUR 67.1 million (90.2), including the decrease of EUR 15.0 (decrease 66.0) million in net working capital. Full-year net cash flow from operations amounted to EUR 132.6 million (167.9), including the increase of EUR 15.0 (decrease 17.4) million in net working capital.

Payments for restructuring, which have a negative impact on cash flow, amounted to EUR 11.8 (9.2) million in the fourth quarter. The restructuring-related payments in the first quarter of 2016 are anticipated to remain at the fourth-quarter level.

Tax payments were EUR 20.4 (7.0 including a refund of EUR 12.3 million in Finland) million in the full year. In January 2016, Tieto paid EUR 6.0 million based on the transfer pricing audit for tax years 2009–2013 in Finland. Further information in the table 'Income taxes' on page 32.

Full-year capital expenditure totalled EUR 50.5 (42.5) million, of which paid EUR 43.7 (43.0) million. Capital expenditure represented 3.5% (2.9) of net sales and was mainly related to data centres. Net payments for acquisitions totalled EUR 73.7 (positive 3.7) million in the full year. The divestment of Lean Systems had a positive effect of EUR 8 million on the full-year cash flow from investing activities.

The equity ratio was 46.2% (47.8). Gearing increased to 2.7% (-12.6). Interest-bearing net debt totalled EUR 13.2 (-59.2) million, including EUR 171.3 million in interest-bearing debt, EUR 6.7 million in finance lease liabilities, EUR 8.1 million in finance lease receivables, EUR 0.5 million in other interest-bearing receivables and EUR 156.2 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 105.0 million at the end of December. Interest-bearing short-term loans amounted to EUR 73.0 million, mainly related to commercial papers, joint venture cash pool balances and 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 December.

Development

Tieto's offering development costs amounted to around EUR 60 million in 2015, representing 4.1% of Group sales (EUR 50 million in 2014, representing 3.2% of net sales). These costs comprise service and product development focusing on, for example, Customer Experience Management, Industrial Internet and Lifecare, Tieto's product for the healthcare and welfare sector, as well as cloud services and selected industry products. Additionally, the costs for related internal development, e.g. standardization in application management and automation in managed services, are included in this amount. Development costs for major new business concepts and software products are capitalized as intangible assets if they fulfil the requirements stated in the accounting principles. No development costs were capitalized for either 2015 or 2014.

Order backlog

Total Contract Value (TCV) amounted to EUR 641 (672) million in the fourth quarter. The total value, including the part beyond the notice period, is included in the TCV. Fourth-quarter book-to-bill stood at 1.6 (1.7). TCV for the deals signed in the full year amounted to EUR 1 902 (1 867) million and book-to-bill stood at 1.3 (1.2).

The order backlog rose to EUR 2 030 (1 784) million. The increase was partly attributable to the positive impact from acquisitions. Due to the fact that the average agreement period has been on the rise, a smaller share, 46% (50), of the backlog is expected to be invoiced during the current year.

Major agreements in January–December

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 entered into force in October 2015 and is valued at EUR 70 million. Tieto is 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 March, Tieto signed a new agreement with International Card Services (ICS), the largest credit card issuing business in the Netherlands, to deliver an end-to-end industry-specific cloud-based IT solution. The new, private cloud solution is developed with a focus on the financial industry, meeting the high security and regulatory demands of businesses. The contract will last until December 2020.

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.

In April, Hurtigruten, a leading Norwegian tourism company, chose Tieto as its strategic hosting partner to deliver modern and holistic IT services. The new agreement includes full life-cycle commercial and administrative applications. The contract duration is five years and the value is up to EUR 15 million.

In August, Tieto signed an agreement with Sollentuna municipality in the Stockholm region, to continue supplying IT services for three additional years. The agreement is worth approximately EUR 8 million.

In September, Tieto and Region Västra Götaland (RVG) signed an agreement on digitalization of RVG's pathology processes by implementing its comprehensive Patos solution. The agreement is valid for 10 years and is worth EUR 46 million. It includes an option for RVG to extend the deal for another ten years.

In September, Tieto signed a framework agreement with Sweden's Legal, Financial and Administrative Services Agency, Kammarkollegiet, to provide information management and eGovernment services to the public sector. The framework agreement comprises seven different providers and has an estimated total value of about SEK 400 million per year over the next four years. The agreement came into force in November 2015 and is a continuation of the government's efforts to increase the digitalization of society.

In September, the State Treasury of Finland chose Tieto as a supplier for its case and document management system. The implementation will be based on Software Innovation's Public 360°. Delivery will take place in early 2016 and the agreement is valid for five years. The new solution will be used in all of the State Treasury's digital service processes in the future, supporting the State Treasury's digitalization goals.

In September, the Finnish Ministry of Employment and the Economy selected Tieto to modernize the national URA information system used by providers of employment-related services. Tieto was also selected as one of three suppliers to modernize the eServices provided to employment and economy offices. The contractual period will last until the end of 2018 with a forecast value of up to EUR 40 million.

In September, SSAB and Tieto renewed their services agreement for the next three years, with a two-year option. The contract covers a wide range of services from capacity services to application development for business-critical manufacturing, logistics and sales operations worldwide. Tieto offered SSAB an attractive model for productivity improvement and for modernizing IT operations in the mainframe environment.

In October, Suominen, a global supplier of nonwovens for wiping, medical and hygiene products, made an agreement on a strategic IT partnership with Tieto. The four-year agreement, with one-year option and significant value, covers the building and maintenance of Suominen's business applications and platform services. Tieto is providing Suominen with a full stack solution, including new ERP and MES systems, based on the standard SAP and TIPS integrated solution with new capabilities, and hosting from the Tieto cloud.

In November, Tieto signed an agreement with the city of Tampere and eight of its nearby municipalities to supply IT infrastructure and integration services. The agreement is valid for five years, 2016–2020, and its value is approximately EUR 30 million.

In November, Tieto signed a five-year outsourcing agreement with ICA Banken for operations, system and back-office services for the bank's securities business. The new solution supports the entire process from order to settlement of securities. With the agreement Tieto takes full responsibility for the systems, operations and administration of ICA Banken's securities management (Software as a Service) and the back office services (Business Process Outsourcing).

In November, Tieto signed a deal to deliver IT services to Praktikertjänst, Sweden's largest provider of private healthcare and dental care. The contract is for five years with an option to extend it for an additional two years. Total contract value is SEK 62 million (EUR 6.7 million), including the hardware to by supplied by Tieto's subcontractor. Based on the agreement, Tieto will deliver IT services from server management to work-place support.

In December, Göteborg Energi decided to outsource its IT operations to Tieto. The agreement runs over a five-year period with a contract value of approximately EUR 40 million. The major service areas in its scope are data centre, work-place, service desk and collaboration services. Göteborg Energi's IT environment will be consolidated at state-of-the-art secure data centres in Sweden.

In December, Tieto concluded agreements with the Finnish Government ICT Centre Valtori, Population Registry Centre and State Treasury on transferring a number of services to the Finnish government data centre and capacity service environment during 2016. The agreements cover the Finnish population information system, Finnish state ERP (Kieku), and national service architecture (X-Road). The total value of the five-year agreements amounts to about EUR 30 million. The agreements are based on the Hansel frame agreement on data centre and capacity services.

Business transactions in January–December

In August, Tieto completed the 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 2015 the company's net sales amounted to around EUR 40 million. Currently, around 75% of its sales come from Norway and the public sector represents around 70% of sales.

In September, Tieto agreed to sell its Lean System business to Palvelurahasto I Ky, a private equity fund managed by Finnish Korona Invest and management. It was operating as a separate business unit inside Tieto, employing 38 experts located mainly in the Helsinki region, Finland.

In November, Tieto acquired Imano to strengthen its position in the paper and forest industries in Sweden. The company has approximately 50 employees in Sweden and its sales in 2015 amounted to around EUR 7 million.

In December, Tieto acquired Smilehouse, the largest Finnish solution provider of multichannel commerce with operations primarily in Finland and Sweden. Smilehouse's team of around 75 professionals will join Tieto's start-up for Customer Experience Management (CEM) and its sales in 2015 amounted to around EUR 10 million.

Personnel

The number of full-time employees amounted to 13 083 (13 720) at the end of December. The number of full-time employees in the global delivery centres totalled 6 039 (6 334), or 46.2% (46.2) of all personnel.

In the full year, the number of full-time employees decreased by a net amount of over 600. In PDS, the number of personnel decreased by over 800. In IT services, the number of personnel increased by around 200 of which net recruitments added around 500 and the net of acquisitions and divestments over 400 employees while job cuts reduced the number of personnel by over 700. The 12-month rolling employee turnover stood at 9.9% (10.5) at the end of December.

Salary inflation was over 3% and is expected to remain at that level on average in 2016. In offshore countries, salary inflation is clearly above the average.

Shareholders' Nomination Board

The largest shareholders were determined on the basis of the shareholdings registered in the Finnish and Swedish book-entry systems on 31 August 2015. The shareholders who wished to participate in the work of the Shareholders' Nomination Board have nominated the following members:

Martin Oliw, Partner, Cevian Capital AB,
Kari Järvinen, Managing Director, Solidium Oy,
Timo Ritakallio, President and CEO, Ilmarinen Mutual Pension Insurance Company,
Timo Sallinen, Head of Listed Securities, Varma Mutual Pension Insurance Company and
Markku Pohjola, Chairman of the Board of Directors, Tieto Corporation.

Board of Directors

The Annual General Meeting 2015 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.

Shares and share-based incentives

Between 9 September and 10 November 2015, a total of 14 867 Tieto new shares were subscribed for with the company's stock options 2009C. As a result of subscriptions, the number of Tieto shares increased to 74 009 953. The shares were registered in the Trade Register on 24 November 2015.

Tieto Corporation’s issued and registered share capital on 31 December 2015 totalled EUR 76 555 412.00 and the number of shares was 74 009 953. At the end of 2015, the number of shares in the company’s or its subsidiaries’ possession totalled 465 084, representing 0.6% of the total number of shares and voting rights.

During 2015, Tieto received two announcements regarding a change in its shareholding. In April, Tieto announced that the number of the company’s shares had increased due to share subscriptions pursuant to stock options. As a result, the holding of Cevian Capital fell below the 15% threshold. In June, Silchester International Investors LLP announced that its aggregate holding in Tieto Corporation had risen to 10.00%. The company had 24 491 registered shareholders at the end of 2015. Based on the ownership records of the Finnish and Swedish central securities depositories, 36.2% of Tieto’s shares were held by Finnish and 2.3% by Swedish investors. In total, there were 22 967 retail investors in Finland and Sweden and they held 12% of Tieto’s shares. Additional information regarding shares and shareholders is available at www.tieto.com/investors/shares.

Dividend

The distributable funds of the parent company amount to EUR 630.3 million, of which net profit for the current year amounts to EUR 46.7 million. The Board of Directors proposes a dividend of EUR 1.10 (1.00) per share for 2015. In light of the company’s strong cash flow and targeted capital structure, an additional dividend of EUR 0.25 is proposed. Tieto will maintain its capacity to invest in growth both organically and inorganically after dividends.

The dividend shall be paid to shareholders who are recorded in the shareholders’ register held by Euroclear Finland Ltd or the register of Euroclear Sweden AB on the proposed dividend record date, 24 March 2016. The proposed dividend payout does not endanger the solvency of the company.

Events after the period

Between 11 November 2015 and 31 December 2015, a total of 3 140 new Tieto Corporation shares were subscribed for with the company's stock options 2009C. As a result of subscriptions, the number of Tieto shares increased to 74 013 093. The shares subscribed for under the stock options were registered in the Trade Register on 19 January 2016.

The Proposals by the Shareholders’ Nomination Board of Tieto Corporation to the Annual General Meeting 2016 were published on 26 January. The Shareholders’ Nomination Board proposes that the current Board members Kurt Jofs, Sari Pajari, Markku Pohjola, Endre Rangnes, Jonas Synnergren and Lars Wollung be re-elected and in addition Johanna Lamminen and Harri-Pekka Kaukonen are proposed to be elected as new Board members.

Near-term risks and uncertainties

Consolidated net sales and profitability are sensitive to volatility in exchange rates, especially that of the Swedish Krona and Norwegian Krona. Sales to Sweden and Norway represent 47% of the Group sales. Further details on management of currency risks are provided in the Financial Statements and on currency impacts at www.tieto.com/currency-impact.

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 30% of its net sales. However, the share has decreased by around four percentage points from 2014.

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 instability 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 limited 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, volatility in the operating environment might lead to 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 2016

Tieto expects its adjusted[1)] full-year operating profit (EBIT) to increase from the previous year's level (EUR 150.8 million in 2015).

[1)] adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other one-off items

Auditing

Full-year figures in this report are based on audited figures.

Financial calendar

Week 8/2016	Annual Report 2015 on Tieto's website
22 March 2016	Annual General Meeting
31 May 2016	Capital Market Day

Tieto will publish three interim reports in 2016

26 April	Interim report 1/2016 (8.00 am EET)
22 July	Interim report 2/2016 (8.00 am EET)
25 October	Interim report 3/2016 (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 2015. The standards, amendments and interpretations which are effective 1 January 2015 are not material to the Group.

The accounting policies will be described in more detail in the annual financial statements for the year ended on 31 December 2015.

Key figures

	2015 10–12	2014 10–12	2015 7–9	2015 4–6	2015 1–3	2015 1–12	2014 1–12
Earnings per share, EUR							
Basic	0.47	0.09	0.40	0.24	0.12	1.23	0.48
Diluted	0.47	0.09	0.40	0.24	0.12	1.23	0.48
Equity per share, EUR	6.57	6.44	5.90	5.69	5.45	6.57	6.44
Return on equity, 12-month rolling, %	19.0	7.1	13.8	4.5	4.5	19.0	7.1
Return on capital employed, 12-month rolling, %	20.4	9.8	14.8	7.5	7.7	20.4	9.8
Equity ratio, %	46.2	47.8	44.3	44.8	39.6	46.2	47.8
Interest-bearing net debt, EUR million	13.2	-59.2	57.7	5.3	-85.9	13.2	-59.2
Gearing, %	2.7	-12.6	13.3	1.3	-21.5	2.7	-12.6
Capital expenditure and acquisitions, EUR million	32.7	12.9	81.8	10.6	11.6	136.7	43.5

Number of shares

	2015 10–12	2015 7–9	2015 4–6	2015 1–3	2015 1–12	2014 10–12	2014 1–12
Outstanding shares, end of period							
Basic	73 544 869	73 530 002	73 511 717	73 247 883	73 544 869	73 165 084	73 165 084
Diluted	73 611 908	73 602 176	73 590 366	73 463 736	73 611 908	73 418 924	73 418 924
Outstanding shares, average							
Basic	73 536 143	73 513 506	73 436 627	73 215 497	73 426 563	73 154 621	72 944 228
Diluted	73 606 896	73 595 806	73 557 549	73 451 489	73 553 478	73 383 366	73 221 816
Company's possession of its own shares							
End of period	465 084	465 084	465 084	465 084	465 084	510 819	510 819
Average	465 084	465 084	465 084	489 646	471 140	516 819	515 147

Income statement, EUR million

	2015 10–12	2014 10–12	2015 1–12	2014 1–12	Change %
Net sales	395.6	402.9	1 460.1	1 522.5	-4
Other operating income	10.5	7.0	30.5	18.1	69
Employee benefit expenses	-216.6	-226.5	-828.3	-846.0	-2
Depreciation, amortization and impairment charges	-13.7	-18.0	-56.6	-104.0	-46
Other operating expenses	-130.1	-157.2	-484.7	-534.8	-9
Share of profit from investments accounted for using the equity method	1.1	1.3	4.2	5.3	-21
Operating profit (EBIT)	46.8	9.5	125.2	61.1	105
Interest and other financial income	0.3	0.4	1.9	1.2	58
Interest and other financial expenses	-1.1	-1.2	-5.4	-4.9	10
Net exchange gains/losses	-0.2	-0.1	-2.4	-0.8	200
Profit before taxes	45.8	8.6	119.3	56.6	111
Income taxes	-11.4	-1.9	-28.8	-21.6	33
Net profit for the period	**34.4**	**6.7**	**90.5**	**35.0**	**159**
Net profit for the period attributable to					
Shareholders of the Parent company	34.4	6.7	90.5	35.0	159
Non-controlling interest	0.0	0.0	0.0	0.0	-
	34.4	**6.7**	**90.5**	**35.0**	**159**
Earnings per share attributable to the shareholders of the Parent company, EUR					
Basic	0.47	0.09	1.23	0.48	156
Diluted	0.47	0.09	1.23	0.48	156
Statement of comprehensive income, EUR million					
Net profit for the period	34.4	6.7	90.5	35.0	159
Items that may be reclassified subsequently to profit or loss					
Translation differences	4.5	-10.4	2.3	-10.1	-
Cash flow hedges (net of tax)	-0.1	-0.1	0.5	1.4	-64
Items that will not be reclassified subsequently to profit or loss					
Actuarial gain/loss on post-employment benefit obligations (net of tax)	10.0	-2.8	9.5	-10.3	-
Total comprehensive income	**48.8**	**-6.6**	**102.8**	**16.0**	**543**
Total comprehensive income attributable to					
Shareholders of the Parent company	48.8	-6.6	102.8	16.0	543
Non-controlling interest	0.0	0.0	0.0	0.0	-
	48.8	**-6.6**	**102.8**	**16.0**	**543**

Balance sheet, EUR million

	2015 31 Dec	2014 31 Dec	Change %
Goodwill	384.9	323.7	19
Other intangible assets	41.0	32.8	25
Property, plant and equipment	83.0	82.2	1
Investments accounted for using the equity method	17.2	19.3	-11
Deferred tax assets	31.6	27.9	13
Finance lease receivables	4.6	5.4	-15
Other interest-bearing receivables	0.1	0.9	-89
Available-for-sale financial assets	0.7	0.7	0
Total non-current assets	563.1	492.9	14
Trade and other receivables	353.9	371.2	-5
Pension benefit assets	6.6	-	-
Finance lease receivables	3.5	4.7	-26
Other interest-bearing receivables	0.4	0.3	33
Current income tax receivables	2.6	1.8	44
Cash and cash equivalents	156.2	160.6	-3
Total current assets	523.2	538.6	-3
Total assets	**1 086.3**	**1 031.5**	**5**
Share capital, share issue premiums and other reserves	121.2	120.5	1
Share issue based on stock options	0.0	0.5	-
Retained earnings	361.6	350.1	3
Parent shareholders' equity	482.8	471.1	2
Non-controlling interest	0.1	0.1	0
Total equity	482.9	471.2	2
Loans	105.0	100.8	4
Deferred tax liabilities	28.7	22.9	25
Provisions	6.1	15.2	-60
Pension obligations	16.7	24.0	-30
Other non-current liabilities	1.5	2.1	-29
Total non-current liabilities	158.0	165.0	-4
Trade and other payables	334.6	339.9	-2
Current income tax liabilities	14.9	12.3	21
Provisions	22.9	31.3	-27
Loans	73.0	11.8	519
Total current liabilities	445.4	395.3	13
Total equity and liabilities	**1 086.3**	**1 031.5**	**5**

Net working capital in the balance sheet, EUR million

	2015 31 Dec	2014 31 Dec	Change %	2015 30 Sep	2015 30 Jun	2015 31 Mar
Accounts receivable	255.4	279.9	-9	245.2	247.6	274.7
Other working capital receivables	98.3	87.1	13	108.2	135.7	112.4
Working capital receivables included in assets	**353.7**	**367.0**	**-4**	**353.4**	**383.3**	**387.1**
Accounts payable	78.7	91.0	-14	76.9	92.4	82.3
Personnel related accruals	143.4	140.8	2	120.0	138.4	156.5
Provisions	29.0	46.5	-38	37.1	47.8	51.5
Other working capital liabilities	105.0	107.4	-2	110.5	113.3	116.4
Working capital liabilities included in current liabilities	**356.1**	**385.7**	**-8**	**344.5**	**391.9**	**406.7**
Net working capital in the balance sheet	**-2.4**	**-18.7**	**-87**	**8.9**	**-8.6**	**-19.6**

Cash flow, EUR million

	2015 10–12	2014 10–12	2015 7–9	2015 4–6	2015 1–3	2015 1–12	2014 1–12
Cash flow from operations							
Net profit	34.4	6.7	29.6	17.4	9.1	90.5	35.0
Adjustments							
Depreciation, amortization and impairment charges	13.7	18.0	14.0	14.4	14.5	56.6	104.0
Share-based payments	0.3	0.0	0.3	0.3	0.1	1.0	0.1
Profit/loss on sale of fixed assets and shares	-0.5	-0.1	-6.3	0.0	0.0	-6.8	-0.4
Share of profit from investments accounted for using the equity method	-1.1	-1.3	-0.8	-1.1	-1.2	-4.2	-5.3
Other adjustments	-2.2	-1.1	0.0	1.3	-1.1	-2.0	-2.1
Net financial expenses	1.0	0.9	1.9	1.3	1.7	5.9	4.5
Income taxes	11.4	1.9	9.9	4.4	3.1	28.8	21.6
Change in net working capital	15.0	66.0	-26.7	-16.2	12.9	-15.0	17.4
Cash generated from operations	72.0	91.0	21.9	21.8	39.1	154.8	174.8
Net financial expenses paid	-0.6	-2.3	-3.0	-3.1	-0.5	-7.2	-5.8
Dividends received from investments accounted for using the equity method	-	-	-	-	5.4	5.4	5.9
Income taxes paid	-4.3	1.5	-2.5	-6.3	-7.3	-20.4	-7.0
Net cash flow from operations	**67.1**	**90.2**	**16.4**	**12.4**	**36.7**	**132.6**	**167.9**
Cash flow from investing activities							
Acquisition of Group companies and business operations, net of cash acquired	-10.8	3.7	-62.7	-0.2	-	-73.7	3.7
Capital expenditures	-12.9	-12.8	-8.7	-10.5	-11.6	-43.7	-43.0
Disposal of Group companies and business operations, net of cash disposed	0.3	-	8.0	-	-	8.3	3.3
Sales of fixed assets	0.2	0.1	0.3	0.0	0.1	0.6	0.6
Sales of available-for-sale financial assets	0.5	-	-	0.0	-	0.5	-
Change in loan receivables	1.2	0.6	0.4	0.6	0.5	2.7	-3.5
Net cash used in investing activities	**-21.5**	**-8.4**	**-62.7**	**-10.1**	**-11.0**	**-105.3**	**-38.9**
Cash flow from financing activities							
Dividends paid	-	-	-	-95.2	-	-95.2	-65.4
Exercise of stock options	0.1	0.3	0.2	2.8	0.5	3.6	5.4
Payments of finance lease liabilities	-0.1	-0.9	0.1	-0.1	-0.2	-0.3	-3.7
Change in interest-bearing liabilities	-5.3	-8.0	47.9	18.2	-2.9	57.9	-21.1
Net cash used in financing activities	**-5.3**	**-8.6**	**48.2**	**-74.3**	**-2.6**	**-34.0**	**-84.8**
Change in cash and cash equivalents	**40.3**	**73.2**	**1.9**	**-72.0**	**23.1**	**-6.7**	**44.2**
Cash and cash equivalents at the beginning of period	115.9	84.4	112.2	184.8	160.6	160.6	114.1
Foreign exchange differences	0.0	3.0	1.8	-0.6	1.1	2.3	2.3
Change in cash and cash equivalents	40.3	73.2	1.9	-72.0	23.1	-6.7	44.2
Cash and cash equivalents at the end of period	**156.2**	**160.6**	**115.9**	**112.2**	**184.8**	**156.2**	**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								35.0	35.0	0.0	35.0
Other comprehensive income											
Actuarial loss on post-employment benefit obligations (net of tax)								-10.3	-10.3		-10.3
Translation difference		-1.8			-24.4			16.1	-10.1		-10.1
Cash flow hedges (net of tax)						1.4			1.4		1.4
Total comprehensive income		**-1.8**			**-24.4**	**1.4**		**40.8**	**16.0**	**0.0**	**16.0**
Transactions with owners											
Share-based payments recognized against equity								0.6	0.6		0.6
Dividend								-65.4	-65.4		-65.4
Share subscriptions based on stock options			-0.1				5.4		5.3		5.3
Share subscriptions based on stock options, not yet registered			0.5						0.5		0.5
Non-controlling interest											0.0
Total transactions with owners	**0.0**	**0.0**	**0.4**				**5.4**	**-64.8**	**-59.0**	**0.0**	**-59.0**
Impact on investments accounted for using the equity method								**0.0**	**0.0**		**0.0**
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**

	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								90.5	90.5	0.0	90.5
Other comprehensive income											
Actuarial gain on post-employment benefit obligations (net of tax)								9.5	9.5		9.5
Translation difference		0.7			1.8			-0.2	2.3		2.3
Cash flow hedges (net of tax)						0.5			0.5		0.5
Total comprehensive income		**0.7**			**1.8**	**0.5**		**99.8**	**102.8**	**0.0**	**102.8**
Transactions with owners											
Share-based payments recognized against equity								1.0	1.0		1.0
Dividend								-95.2	-95.2		-95.2
Share subscriptions based on stock options			-0.5				3.6		3.1		3.1
Share subscriptions based on stock options, not yet registered			0.0						0.0		0.0
Non-controlling interest											0.0
Total transactions with owners	**0.0**	**0.0**	**-0.5**				**3.6**	**-94.2**	**-91.1**	**0.0**	**-91.1**
Impact on investments accounted for using the equity method								**0.0**	**0.0**		**0.0**
At 31 Dec 2015	**76.6**	**44.6**	**0.0**	**-11.6**	**-49.2**	**0.2**	**12.1**	**410.1**	**482.8**	**0.1**	**482.9**

Segment information

Customer sales by service line, EUR million

	2015 10–12	2014 10–12	Change %	2015 1–12	2014 1–12	Change %
Managed Services	132	131	1	511	512	0
Consulting and System Integration	109	107	2	398	387	3
Industry Products	121	107	13	410	395	4
Product Development Services	33	58	-43	142	229	-38
Group total	**396**	**403**	**-2**	**1 460**	**1 522**	**-4**

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 1–12	Change %	Share %	2014 1–12	Share %
Finland	669	-6	46	711	47
Sweden	553	1	38	548	36
Other	238	-10	16	264	17
Group total	**1 460**	**-4**	**100**	**1 522**	**100**

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

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

In Norway, growth in local currencies was 6% organically.

Customer sales by industry group, EUR million

	2015 10–12	2014 10–12	Change %	2015 1–12	2014 1–12	Change %
Financial Services	92	90	2	347	335	4
Manufacturing, Retail and Logistics	78	82	-5	307	311	-1
Public, Healthcare and Welfare	133	115	16	439	410	7
Telecom, Media and Energy	59	59	-1	227	238	-5
Product Development Services	33	58	-43	142	229	-38
Group total	**396**	**403**	**-2**	**1 460**	**1 522**	**-4**

Customer sales to the telecom sector were EUR 275 (370) million during January–December.

Revenues derived from any single external customer during January–December 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 10–12	2014 10–12	Change %	2015 1–12	2014 1–12	Change %
Managed Services	18.4	8.2	124.4	29.9	37.6	-20.4
Consulting and System Integration	8.8	10.4	-15.0	30.0	34.9	-14.1
Industry Products	25.2	17.4	44.6	72.5	68.1	6.4
Product Development Services	2.8	-4.4	-	15.6	-42.9	-
Support Functions and Global Management	-8.3	-22.1	62.3	-22.8	-36.5	37.4
Operating profit (EBIT)	**46.8**	**9.5**	**392.9**	**125.2**	**61.1**	**104.8**

Operating margin (EBIT) by service line, %

	2015 10–12	2014 10–12	Change pp	2015 1–12	2014 1–12	Change pp
Managed Services	13.9	6.2	7.7	5.9	7.3	-1.5
Consulting and System Integration	8.1	9.8	-1.7	7.5	9.0	-1.5
Industry Products	20.8	16.3	4.5	17.7	17.3	0.4
Product Development Services	8.4	-7.5	15.9	11.0	-18.7	29.7
Operating margin (EBIT)	**11.8**	**2.4**	**9.4**	**8.6**	**4.0**	**4.6**

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

	2015 10–12	2014 10–12	Change %	2015 1–12	2014 1–12	Change %
Managed Services	17.2	9.0	90.9	48.5	38.4	26.2
Consulting and System Integration	11.3	10.2	10.9	36.0	38.3	-5.9
Industry Products	25.8	19.6	31.7	68.5	70.3	-2.6
Product Development Services	3.1	11.9	-74.0	14.7	21.7	-32.4
Support Functions and Global Management	-6.0	-6.3	4.5	-16.8	-18.5	9.1
Operating profit (EBIT)	**51.4**	**44.4**	**15.8**	**150.8**	**150.2**	**0.4**

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

	2015 10–12	2014 10–12	Change pp	2015 1–12	2014 1–12	Change pp
Managed Services	13.0	6.9	6.1	9.5	7.5	2.0
Consulting and System Integration	10.3	9.5	0.8	9.0	9.9	-0.9
Industry Products	21.4	18.3	3.1	16.7	17.8	-1.1
Product Development Services	9.4	20.5	-11.1	10.3	9.5	0.9
Operating margin (EBIT)	**13.0**	**11.0**	**2.0**	**10.3**	**9.9**	**0.5**

Personnel by service line

	End of period 2015 1–12	Change %	Share %	2014 1–12	Average 2015 1–12	2014 1–12
Managed Services	3 024	-9	23	3 321	3 158	3 162
Consulting and System Integration	4 258	8	33	3 953	4 155	3 903
Industry Products	3 449	8	26	3 181	3 254	3 033
Product Development Services	1 279	-39	10	2 114	1 488	2 761
Service Lines total	**12 011**	**-4**	**92**	**12 568**	**12 054**	**12 859**
Industry Groups	439	6	3	415	463	408
Support Functions and Global Management	634	-14	5	738	667	740
Group total	**13 083**	**-5**	**100**	**13 720**	**13 184**	**14 007**

Personnel by country

	End of period 2015 1–12	Change %	Share %	2014 1–12	Average 2015 1–12	2014 1–12
Finland	3 612	-12	28	4 122	3 842	4 265
Sweden	2 490	-2	19	2 548	2 496	2 586
Czech Republic	2 025	-2	15	2 077	2 037	2 002
India	2 230	13	17	1 979	2 137	1 752
China	258	-32	2	379	285	694
Latvia	678	0	5	680	690	687
Poland	421	-17	3	507	450	606
Norway	600	44	5	417	479	424
Philippines	0	-100	0	227	33	235
Lithuania	115	-6	1	122	117	127
Other	655	-1	5	662	617	630
Group total	**13 083**	**-5**	**100**	**13 720**	**13 184**	**14 007**
Onshore countries	7 045	-5	54	7 386	7 145	7 574
Offshore countries	6 039	-5	46	6 334	6 039	6 433
Group total	**13 083**	**-5**	**100**	**13 720**	**13 184**	**14 007**

Non-current assets by country, EUR million

	2015 31 Dec	2014 31 Dec	Change %
Finland	81.7	84.6	-4
Sweden	24.3	24.6	-1
Other	18.0	5.8	212
Total non-current assets	**124.0**	**115.0**	**8**

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 10–12	2014 10–12	Change %	2015 1–12	2014 1–12	Change %
Managed Services	11.3	12.7	-11	47.2	50.8	-7
Consulting and System Integration	0.2	0.2	-10	0.8	0.7	13
Industry Products	0.2	0.1	123	0.7	0.4	71
Product Development Services	0.0	0.7	-107	0.2	1.0	-76
Support Functions and Global Management	1.5	4.2	-64	6.6	10.7	-38
Group total	**13.1**	**17.9**	**-27**	**55.4**	**63.5**	**-13**

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

	2015 10–12	2014 10–12	Change %	2015 1–12	2014 1–12	Change %
Managed Services	-	-	-	-	0.2	-
Consulting and System Integration	0.0	0.1	-63	0.2	0.5	-62
Industry Products	0.5	0.1	450	1.0	0.3	236
Product Development Services	-	-	-	-	-	-
Support Functions and Global Management	-	-	-	-	-	-
Group total	**0.6**	**0.2**	**193**	**1.2**	**1.0**	**21**

Impairment losses by service line, EUR million

	2015 10–12	2014 10–12	Change %	2015 1–12	2014 1–12	Change %
Managed Services	-	-	-	-	-	-
Consulting and System Integration	-	-	-	-	-	-
Industry Products	-	-	-	-	-	-
Product Development Services	-	-	-	-	39.6	-
Support Functions and Global Management	-	-	-	-	-	-
Group total	**-**	**-**	**-**	**-**	**39.6**	**-**

Income Taxes

	2015 10–12	2014 10–12	2015 1–12	2014 1–12
According to income statement				
Current taxes	7.9	4.8	22.6	18.9
Change of deferred taxes	3.9	-3.7	6.5	0.9
Taxes for prior years	-0.4	0.8	-0.3	1.8
Total taxes in income statement	11.4	1.9	28.8	21.6
Effective tax rate %	25.0	22.1	24.1	38.2

In December 2015 Tieto Corporation received tax reassessment decision regarding transfer pricing audit for tax years 2009–2013 in Finland. Tax authorities claim that part of shareholder costs of Tieto Corporation should have been allocated to other companies during these years. Tieto paid additional tax, interest and penalties of EUR 6.0 million in January 2016 in accordance with the decision. Tieto considers that its position is clearly supported by the technical merits and factual support presented to the tax authorities and Tieto will appeal the decision. Tieto has recorded an expense of EUR 0.5 million in respect of the tax audit and does not expect to record any further expense in future periods as it expects the payments to be refunded.

Acquisitions in 2015

Tieto completed 3 acquisitions during 2015:

* Software Innovation AS, ownership 100% of the shares, effective from September 2015
* Imano AB, ownership 100% of the shares, effective from December 2015
* Smilehouse Group Oy, ownership 100% of the shares, effective from December 2015

Software Innovation

Software Innovation is a software company in the Enterprise Content Management (ECM) business in the Nordic countries. The acquisition strengthens Tieto's presence in Norway and expands the company's scalable software-driven business. As a result of the acquisition, Tieto's market share in the Nordic enterprise content management business increases from its pre-acquisition level of around 7% to some 20%. In addition, Tieto sees opportunities to provide Tieto's broad set of services covering outsourcing, consulting and system integration, as well as other Tieto software products.

The following table summarizes the consideration paid, the fair value of assets acquired and liabilities assumed at the acquisition date of Software Innovation.

Consideration

EUR million	
Paid in cash	66.6
Total consideration	**66.6**

Recognized amounts of identifiable assets acquired and liabilities assumed

EUR million	Recognized on acquisition
Property, plant and equipment	0.3
Intangible assets	14.1
Deferred tax assets	11.6
Trade and other receivables	9.8
Cash and cash equivalents	3.9
Deferred tax liabilities	-3.8
Other non-current liabilities	-0.4
Trade and other payables	-12.4
Loans	-3.6
Goodwill	47.1
Total identifiable net assets	**66.6**

The goodwill is attributable to market share, expert knowledge and workforce. It will not be deductible for tax purposes.

Acquisition-related costs of EUR 0.3 million are included in other operating expenses in the income statement and in cash flow from operations.

Since the date of acquisition, the acquired unit has contributed about EUR 15.7 million to the revenue and EUR 2.5 million to the operating profit of the Group.

If the combinations had taken place at the beginning of the year, the revenue for the Group would have been about EUR 40 million and profit about EUR 3 million.

Imano and Smilehouse

The acquisitions of Imano and Smilehouse are not individually material to the consolidated financial statements. Consequently the information of these two acquisitions is presented together.

Imano is a Swedish consulting company offering consulting services and helping its clients in the paper and forest industries digitalize their business processes. The acquisition supports Tieto's objective of becoming the largest IT services provider in the paper and forest industries in Sweden and Norway.

Smilehouse is the largest Finnish solution provider of multichannel commerce with operations primarily in Finland and Sweden. Through the acquisition, Tieto strengthens its position as one of the leading Nordic players in digital Customer Experience Management and supports the company's aim to accelerate growth in this market.

The following table summarizes the total considerations, the fair values of the assets acquired and liabilities assumed of Imano and Smilehouse at the acquisition dates.

The purchase price allocation is provisional due to ongoing identification and valuation of the underlying assets and liabilities.

Consideration

EUR million	
Paid in cash	12.2
Net working capital adjustments	1.5
Contingent consideration	5.7
Total consideration	**19.5**

Recognized amounts of identifiable assets acquired and liabilities assumed

EUR million	Recognized on acquisition
Property, plant and equipment	0.0
Intangible assets	1.3
Trade and other receivables	3.7
Cash and cash equivalents	2.3
Non-current liabilities	-0.4
Trade and other payables	-3.8
Goodwill	16.4
Total	**19.5**

Contingent consideration is mainly determined by growth and profitability of the acquired businesses.

The goodwill is attributable to market share and competences. It will not be deductible for tax purposes.

Acquisition-related costs of EUR 0.1 million are included in other operating expenses in the income statement and in cash flow from operations.

Since the date of acquisition, the acquired units have contributed about EUR 1.4 million to the revenue and EUR 0.1 million to the operating profit of the Group.

If the combinations had taken place at the beginning of the year, the revenue for the Group would have been about EUR 17 million and profit about EUR 1 million.

Disposals in 2015

As of September 2015 Tieto disposed of the Lean System business in Finland.

Lean System business offers enterprise resource planning services in manufacturing. It was operating as a separate business unit inside Tieto located mainly in the Helsinki region, Finland.

The capital gain related to the disposed businesses at the date of disposal is specified below:

EUR million	Recognized on disposal
Current liabilities	0.3
Fair value of net assets	**-0.3**
Goodwill allocation on disposals	1.9
Total net asset allocation on disposals	**1.6**
Transaction costs	0.2
Received in cash	8.0
Capital gain	**6.2**

Commitments and contingencies, EUR million

	2015 31 Dec	2014 31 Dec
For Tieto obligations		
Guarantees		
Performance guarantees	10.1	27.3
Lease guarantees	9.1	9.9
Other	4.3	0.2
Other Tieto obligations		
Rent commitments due in one year	41.4	44.7
Rent commitments due in 1–5 years	100.9	100.3
Rent commitments due after 5 years	21.2	11.3
Operating lease commitments due in one year	8.2	6.5
Operating lease commitments due in 1–5 years	12.0	8.6
Operating lease commitments due after 5 years	0.7	0.7
Commitments to purchase assets	8.5	12.6
On behalf of joint ventures	-	-
On behalf of others		
Guarantees	0.4	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 Dec	2014 31 Dec
Foreign exchange forward contracts	294.5	160.1
Forward contracts outside hedge accounting	281.9	115.7
Forward contracts within hedge accounting	12.6	44.4
Electricity price futures contracts	0.3	0.8

Fair values of derivatives

The net fair values of derivative financial instruments at the balance sheet date	2015 31 Dec	2014 31 Dec
Foreign exchange forward contracts	0.3	-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 Dec	2014 31 Dec
Foreign exchange forward contracts	1.6	1.4
Forward contracts outside hedge accounting	1.4	1.4
Forward contracts within hedge accounting *)	0.2	-
Electricity price futures contracts	-	-

Gross negative fair values of derivatives	2015 31 Dec	2014 31 Dec
Foreign exchange forward contracts	-1.3	-1.8
Forward contracts outside hedge accounting	-1.3	-1.4
Forward contracts within hedge accounting *)	-	-0.4
Electricity price futures contracts	-0.1	-0.1

*) Forward contracts within hedge accounting (net)	0.2	-0.4
The amount recognized in equity	0.2	-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 4 months. Gains and losses, recognized in the hedging reserve in equity (note Other reserves) on forward foreign exchange contracts as of 31 December 2015 amounted to net EUR 0.2 million (EUR -0.4 in 31 December 2014). These are recognized in the income statement in the same 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 4 months.

The efficient portion of cash flow hedges recognized in net sales at 31December 2015 amounted to a gain of EUR 0.6 million (EUR 0.5 million on 31 December 2014) and a loss of EUR 0.2 million (EUR 2.5 million on 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 December 2015 (EUR 0.0 million gain on 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 December 2015 (EUR 0.3 million on 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	-
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	1.1
Fair value losses in year	-0.5
Tax on fair value gains	0.2
Tax on fair value losses	-0.3
Balance at 31 Dec 2015	0.2

Fair value measurement of financial assets and liabilities

EUR million 31 Dec 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	1.6	-	1.6
Available-for-sale investments	-	-	0.7	0.7
Financial liabilities at fair value through profit or loss				
Derivatives	-	1.4	-	1.4

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 10–12	2015 7–9	2015 4–6	2015 1–3	2014 10–12	2014 7–9	2014 4–6	2014 1–3
Earnings per share, EUR								
Basic	0.47	0.40	0.24	0.12	0.09	-0.17	0.23	0.34
Diluted	0.47	0.40	0.24	0.12	0.09	-0.17	0.23	0.34
Equity per share, EUR	6.57	5.90	5.69	5.45	6.44	6.52	6.70	6.56
Return on equity, 12-month rolling, %	19.0	13.8	4.5	4.5	7.1	8.7	15.3	13.5
Return on capital employed,12-month rolling, %	20.4	14.8	7.5	7.7	9.8	10.4	14.8	15.3
Equity ratio, %	46.2	44.3	44.8	39.6	47.8	51.4	48.7	44.9
Interest-bearing net debt, EUR million	13.2	57.7	5.3	-85.9	-59.2	25.7	30.3	-20.5
Gearing, %	2.7	13.3	1.3	-21.5	-12.6	5.4	6.2	-4.3
Capital expenditure and acquisitions, EUR million	32.7	81.8	10.6	11.6	12.9	10.1	7.1	13.4

Income statement, EUR million

	2015 10–12	2015 7–9	2015 4–6	2015 1–3	2014 10–12	2014 7–9	2014 4–6	2014 1–3
Net sales	395.6	335.1	363.8	365.6	402.9	346.2	386.4	387.0
Other operating income	10.5	10.2	4.8	5.0	7.0	3.5	3.8	3.8
Employee benefit expenses	-216.6	-174.4	-212.2	-225.1	-226.5	-182.8	-219.3	-217.4
Depreciation, amortization and impairment charges	-13.7	-14.0	-14.4	-14.5	-18.0	-55.0	-15.6	-15.4
Other operating expenses	-130.1	-116.3	-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	0.8	1.1	1.2	1.3	1.6	1.3	1.1
Operating profit (EBIT)	46.8	41.4	23.1	13.9	9.5	-3.9	21.5	34.0
Financial income and expenses	-1.0	-1.9	-1.3	-1.7	-0.9	-1.4	-1.0	-1.2
Profit before taxes	45.8	39.5	21.8	12.2	8.6	-5.3	20.5	32.8
Income taxes	-11.4	-9.9	-4.4	-3.1	-1.9	-7.5	-4.0	-8.2
Net profit for the period	**34.4**	**29.6**	**17.4**	**9.1**	**6.7**	**-12.8**	**16.5**	**24.6**

Balance sheet, EUR million

	2015 31 Dec	2015 30 Sep	2015 30 Jun	2015 31 Mar	2014 31 Dec	2014 30 Sep	2014 30 Jun	2014 31 Mar
Goodwill	384.9	362.9	327.5	327.0	323.7	329.5	367.5	371.1
Other intangible assets	41.0	45.8	30.4	32.3	32.8	39.5	41.3	43.2
Property, plant and equipment	83.0	81.8	78.3	80.4	82.2	82.2	85.4	93.2
Investments accounted for using the equity method	17.2	16.0	16.3	15.1	19.3	19.7	18.1	16.7
Other non-current assets	37.0	41.6	33.3	35.7	34.9	31.2	33.9	30.5
Total non-current assets	563.1	548.1	485.8	490.5	492.9	502.1	546.2	554.7
Trade receivables and other current assets	367.0	364.5	393.3	394.7	378.0	390.4	411.7	437.5
Cash and cash equivalents	156.2	115.9	112.2	184.8	160.6	84.4	99.6	136.3
Total current assets	523.2	480.4	505.5	579.5	538.6	474.8	511.3	573.8
Total assets	**1 086.3**	**1 028.5**	**991.3**	**1 070.0**	**1 031.5**	**976.9**	**1 057.5**	**1 128.5**
Total equity	482.9	433.5	418.2	399.5	471.2	477.0	489.8	476.2
Non-current loans	105.0	105.9	100.2	100.5	100.8	101.7	101.6	102.1
Other non-current liabilities	53.0	64.6	59.7	63.2	64.2	56.8	54.3	56.5
Total non-current liabilities	158.0	170.5	159.9	163.7	165.0	158.5	155.9	158.6
Trade payables and other current liabilities	349.5	322.9	352.3	461.0	352.2	297.4	346.6	439.1
Provisions	22.9	24.3	33.4	36.7	31.3	23.5	25.1	33.6
Current loans	73.0	77.3	27.5	9.1	11.8	20.5	40.1	21.0
Total current liabilities	445.4	424.5	413.2	506.8	395.3	341.4	411.8	493.7
Total equity and liabilities	**1 086.3**	**1 028.5**	**991.3**	**1 070.0**	**1 031.5**	**976.9**	**1 057.5**	**1 128.5**

Cash flow, EUR million

	2015 10–12	2015 7–9	2015 4–6	2015 1–3	2014 10–12	2014 7–9	2014 4–6	2014 1–3
Cash flow from operations								
Net profit	34.4	29.6	17.4	9.1	6.7	-12.8	16.5	24.6
Adjustments	22.6	19.0	20.6	17.1	18.3	62.2	18.5	23.4
Change in net working capital	15.0	-26.7	-16.2	12.9	66.0	-32.7	-18.6	2.7
Cash generated from operations	72.0	21.9	21.8	39.1	91.0	16.7	16.4	50.7
Net financial expenses paid	-0.6	-3.0	-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	-4.3	-2.5	-6.3	-7.3	1.5	-5.5	3.3	-6.3
Net cash flow from operations	**67.1**	**16.4**	**12.4**	**36.7**	**90.2**	**11.1**	**16.6**	**50.0**
Net cash used in investing activities	**-21.5**	**-62.7**	**-10.1**	**-11.0**	**-8.4**	**-7.1**	**-11.3**	**-12.1**
Net cash used in financing activities	**-5.3**	**48.2**	**-74.3**	**-2.6**	**-8.6**	**-19.1**	**-42.7**	**-14.4**
Change in cash and cash equivalents	**40.3**	**1.9**	**-72.0**	**23.1**	**73.2**	**-15.1**	**-37.4**	**23.5**
Cash and cash equivalents at the beginning of period	115.9	112.2	184.8	160.6	84.4	99.6	136.3	114.1
Foreign exchange differences	0.0	1.8	-0.6	1.1	3.0	-0.1	0.7	-1.3
Change in cash and cash equivalents	40.3	1.9	-72.0	23.1	73.2	-15.1	-37.4	23.5
Cash and cash equivalents at the end of period	**156.2**	**115.9**	**112.2**	**184.8**	**160.6**	**84.4**	**99.6**	**136.3**

QUARTERLY FIGURES BY SEGMENTS

Customer sales by service line, EUR million

	2015 10–12	2015 7–9	2015 4–6	2015 1–3	2014 10–12	2014 7–9	2014 4–6	2014 1–3
Managed Services	132	122	131	126	131	121	132	127
Consulting and System Integration	109	88	101	99	107	84	97	100
Industry Products	121	96	98	94	107	91	97	100
Product Development Services	33	29	33	47	58	51	60	60
Group total	**396**	**335**	**364**	**366**	**403**	**346**	**386**	**387**

Customer sales by industry group, EUR million

	2015 10–12	2015 7–9	2015 4–6	2015 1–3	2014 10–12	2014 7–9	2014 4–6	2014 1–3
Financial Services	92	83	88	84	90	77	84	83
Manufacturing, Retail and Logistics	78	73	77	78	82	73	78	79
Public, Healthcare and Welfare	133	98	107	101	115	91	104	100
Telecom, Media and Energy	59	53	58	57	59	54	60	65
Product Development Services	33	29	33	47	58	51	60	60
Group total	**396**	**335**	**364**	**366**	**403**	**346**	**386**	**387**

Operating profit (EBIT) by service line, EUR million

	2015 10–12	2015 7–9	2015 4–6	2015 1–3	2014 10–12	2014 7–9	2014 4–6	2014 1–3
Managed Services	18.4	16.7	3.1	-8.3	8.2	11.0	7.6	10.9
Consulting and System Integration	8.8	4.4	8.5	8.2	10.4	7.2	6.1	11.1
Industry Products	25.2	24.0	10.8	12.6	17.4	20.3	15.0	15.5
Product Development Services	2.8	0.6	5.7	6.5	-4.4	-37.4	-2.3	1.1
Support Functions and Global Management	-8.3	-4.2	-5.0	-5.0	-22.1	-5.0	-4.8	-4.6
Operating profit (EBIT)	**46.8**	**41.4**	**23.1**	**13.9**	**9.5**	**-3.9**	**21.5**	**34.0**

Operating margin (EBIT) by service line, %

	2015 10–12	2015 7–9	2015 4–6	2015 1–3	2014 10–12	2014 7–9	2014 4–6	2014 1–3
Managed Services	13.9	13.7	2.4	-6.6	6.2	9.0	5.8	8.5
Consulting and System Integration	8.1	5.0	8.4	8.3	9.8	8.6	6.3	11.1
Industry Products	20.8	24.9	11.0	13.3	16.3	22.4	15.3	15.4
Product Development Services	8.4	2.1	17.1	14.0	-7.5	-73.0	-3.8	1.9
Operating margin (EBIT)	**11.8**	**12.4**	**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 10–12	2015 7–9	2015 4–6	2015 1–3	2014 10–12	2014 7–9	2014 4–6	2014 1–3
Managed Services	17.2	16.8	9.9	4.6	9.0	11.1	7.6	10.7
Consulting and System Integration	11.3	5.3	8.7	10.8	10.2	9.7	7.2	11.2
Industry Products	25.8	18.0	12.0	12.7	19.6	20.2	15.2	15.4
Product Development Services	3.1	1.8	3.2	6.5	11.9	4.6	3.7	1.6
Support Functions and Global Management	-6.0	-3.0	-3.6	-3.9	-6.3	-4.2	-3.7	-4.4
Operating profit (EBIT)	**51.4**	**38.6**	**30.1**	**30.7**	**44.4**	**41.3**	**30.0**	**34.5**

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

	2015 10–12	2015 7–9	2015 4–6	2015 1–3	2014 10–12	2014 7–9	2014 4–6	2014 1–3
Managed Services	13.0	13.8	7.6	3.6	6.9	9.1	5.8	8.4
Consulting and System Integration	10.3	5.9	8.6	10.8	9.5	11.6	7.4	11.2
Industry Products	21.4	18.7	12.2	13.4	18.3	22.3	15.6	15.4
Product Development Services	9.4	6.2	9.6	14.0	20.5	8.9	6.1	2.6
Operating margin (EBIT)	**13.0**	**11.5**	**8.3**	**8.4**	**11.0**	**11.9**	**7.8**	**8.9**

Major shareholders on 31 December 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	Swedbank Robur fonder	1 703 347	2.3
5	Ilmarinen Mutual Pension Insurance Co.	1 358 840	1.8
6	The State Pension fund	823 000	1.1
7	Varma Mutual Pension Insurance Co.	793 488	1.1
8	Evli funds	736 357	1.0
9	Nordea funds	570 500	0.8
10	Svenska litteratursällskapet i Finland r.f.	541 345	0.7
	Top 10 shareholders total	32 416 936	43.8
	- of which nominee registered	20 177 988	27.3
	Nominee registered other	26 821 392	36.2
	Others	14 771 625	20.0
	Total	**74 009 953**	**100.0**

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

*) Based on the ownership records of Euroclear Finland Oy, Cevian Capital's holding on 31 August 2015 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 Thursday 4 February 2016 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: 7494938

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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