



Q3 2018

Interim Report

January–September

Strong growth – solid profitability

- Growth in local currencies 7%, organically 5%
- Strong performance continues in Technology Services and Modernization and Product Development Services
- Efficiency improvements compensate negative currency impact

tieto

Key figures for the third quarter

Figures for 2017 in this interim report have been restated due to the adoption of IFRS 15.

IT services

- Sales growth totalled 2.7%, sales in local currencies up by 6.3%
- Adjusted operating profit amounted to EUR 41.2 (42.4) million, 12.3% (13.0) of sales

The Group

- Sales growth totalled 3.4%, sales in local currencies up by 7.3%
- Adjusted operating profit amounted to EUR 41.6 (41.1) million, 11.3% (11.6) of sales
- In local currencies, the order backlog for 2018 provides support for Tieto's growth ambitions for the year

M&A impact visible in the tables on page 8.

	7-9/2018	7-9/2017	1-9/2018	1-9/2017
Net sales, EUR million	367.1	355.0	1 177.6	1 133.8
Change, %	3.4	4.3	3.9	4.1
Change in local currencies, %	7.3	4.5	7.1	4.7
Operating profit (EBITA), EUR million	43.8	45.0	121.5	102.7
Operating margin (EBITA), %	11.9	12.7	10.3	9.1
Operating profit (EBIT), EUR million ¹⁾	40.4	41.1	109.0	91.2
Operating margin (EBIT), % ¹⁾	11.0	11.6	9.3	8.0
Adjusted ^{1) 2)} operating profit (EBIT), EUR million	41.6	41.1	113.0	112.2
Adjusted ^{1) 2)} operating margin (EBIT), %	11.3	11.6	9.6	9.9
Profit after taxes, EUR million	33.0	34.2	87.6	71.0
EPS, EUR	0.45	0.46	1.19	0.96
Net cash flow from operations, EUR million	18.7	10.8	92.5	84.4
Return on equity, 12-month rolling, %	27.8	23.5	27.8	23.5
Return on capital employed, 12-month rolling, %	23.5	21.0	23.5	21.0
Capital expenditure, EUR million	8.7	9.1	28.2	39.4
Acquisitions, EUR million	-	-	12.2	-
Interest-bearing net debt, EUR million	199.7	161.4	199.7	161.4
Net debt/EBITDA	1.0	0.8	1.0	0.8
Order backlog	1 564	1 689	1 564	1 689
Personnel on 30 September	15 109	13 851	15 109	13 851

¹⁾ the third quarter includes EUR 1.4 (1.0) million in amortization of acquisition-related intangible assets

²⁾ adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability (see page 35)

Full-year outlook for 2018 unchanged

Tieto expects its adjusted¹⁾ full-year operating profit (EBIT) to increase from the previous year's level (EUR 161.4 million in 2017).

¹⁾ adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability

CEO's comment

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

"We are happy to continue on our path of strong growth. We see good opportunities across our service portfolio – from design lead consulting, data analytics and cloud computing to modernization of high availability infrastructures and applications. The breadth of our services and software, coupled with our targeted investments, have established a solid foundation for growth – this is especially evident in the Technology Services and Modernization and Product Development Services businesses.

We are also satisfied with the development of our operational profitability, which was in line with our expectations for the quarter. With efficiency improvement and service delivery automation we have continued to compensate for the negative currency impact which we have experienced throughout this year.

It is very encouraging to see the continued development in our company-wide customer experience results, measured by Net Promoter Score (NPS). With four successive years of improvement, we have set a new record – and our ambition is to excel in our industry globally. All our employees around the world have contributed to this positive progress, supported by continued attention to our Open Source culture. We have also been recognized as an attractive and innovative employer. Most recently, we were globally nominated among the top 25 companies in Equileap's 2018 Gender Equality Ranking. Of technology companies, Tieto was ranked number one in the world. These latest developments provide a good foundation for accelerating renewal and innovation."

IT market development

Operational agility and the simultaneous innovation of new data-driven, personalized experiences and business models remain high on the agenda of all enterprises, governments and public institutions. Technology forms the backbone of the pursuit of this agenda and encompasses the adoption of open architectures, web technologies, microservices, application containerization, cloud, human-centric design, agile software development, robotics process automation, and advanced analytics/artificial intelligence. Currently, there are a multitude of legacy applications, monolithic software, and traditional infrastructures, which on the one hand hinder customers' renewal, but on the other hand also ensure business continuity.

Based on the need for business continuity and adoption of upcoming technologies, the market remains dynamic. In 2018, the Nordic market is anticipated to grow by 2%, with the following characteristics

- Increased demand for consulting-based services around enterprise architecture, design, agile software development, service integration and advanced analytics.
- Acceleration of cloud adoption for business agility. The technology architectures remain hybrid across public cloud, private cloud and on-premise platforms which provides enterprises with an opportunity to optimize cost efficiency as well as fulfil compliance requirements. Public cloud is assuming a greater significance while demand for private cloud and traditional infrastructure services is expected to remain good. Spending on public cloud is expected to grow annually by 25–30% and private cloud by 10–15% in the coming years.
- The outsourcing market is shifting to be more application-centric, with increased efficiency requirements and price erosion in infrastructure services. Agreement terms are changing and the size of outsourcing contracts continues to shrink with the adoption of agile development practices (e.g. Devops) and automation.
- Increased investments in co-creating data-driven value propositions and use cases, utilizing data assets, advanced analytics and core business knowledge.
- High demand for people and skills – the same technology capabilities as in the software and IT services sector are needed across all industries.

Industry sector drivers

- In the **financial services** sector, the digital transformation and core system renewals continue. Compliance with new regulations, open banking digitalization and real-time payments are driving fundamental changes in the sector. The rapid market changes have also increased demand for a variety of competences, resulting in temporarily increased cost inflation pressures across the Nordic countries. In Industry Solutions, there is a clear shift towards Software as a Service delivered on secure cloud platforms and consumption-based models. In infrastructure services, price pressure has remained strong and there is a clear trend for demand to shift towards the public cloud.
- In the **public** sector, the digitalization of services and processes will continue with efficiency and citizen experience as key drivers. High demand for consulting services and system administration is attributable to the fact that many customers are experiencing a shortage of skilful competences. In Finland, Tieto is actively participating in Government development programmes and demand is good for case management solutions and new data-driven offerings, for example.

- In the [healthcare and welfare](#) sector, the digitalization trend will continue to support easier and faster access to healthcare for citizens. All the Nordic countries are planning ambitious large-scale projects to enhance eHealth. The prevailing trend is to move towards integrated healthcare and welfare systems supporting seamless care. Additionally, there is increased interest in artificial intelligence-based solutions, which is also attracting new startups into the market. In Finland, the social and healthcare reform has been postponed, resulting in some delays in the large-scale renewal of the Electronic Health Record; however, the reform is expected to provide good opportunities in the coming years. In Sweden, the focus is on the ongoing procurement of the Electronic Health Record.
- The Nordic [manufacturing](#) sector is experiencing a shift from traditional production and distribution models to a more service-driven business model, and clients are seeking ways to adapt their ways of working accordingly. This is leading to the renewal of core business processes and systems as well as increased investments in intelligent data-driven solutions. At the same time, there is a continuous focus on efficiency improvements. The key factors behind this change are the digitalization of customer experience, ERP, intelligent analytics driven by sensors and cognitive automation.
- In the [forest and paper](#) sector, the need to lower production costs continues to drive the adoption of new digital solutions, such as Smart Manufacturing using IoT, advanced robotics and analytics. There is also interest in applying immersive experience tools combined with digital twins of assets, using data from sensors installed to represent their current status. The pulp and paper sector in the Nordics is starting to prepare for the modernization of their enterprise applications in the coming years.
- In the [retail and logistics](#) sector, enterprises are investing in new digital commerce, marketing and payment capabilities to be able to provide a seamless customer experience in all interaction across different touchpoints. In logistics, smart turnkey delivery solutions and new legislation supporting peer-to-peer logistic solutions are poised to revolutionize last mile deliveries in the Nordics, particularly in the urban landscape. It is anticipated that globally leading companies entering the Nordic countries will increase competition in the retail sectors while creating further opportunities for logistics providers.
- The [energy utility](#) market is going through many changes, mainly driven by regulatory requirements. Energy companies will have to become more sustainable and competition in the market will increase. Energy companies also need to make it easier for consumers to better understand their individual energy consumption. The Advanced Meter Infrastructure market is preparing for the second generation of Smart Meters, helping consumers increase awareness of their energy consumption. In the [oil & gas](#) market, the market for new development projects is experiencing a slight recovery and demand for solutions that target increased productivity is improving.
- In the [telecom](#) sector, new opportunities based on 5G will enable telecom providers to diversify into new value-added services and provide key platforms for innovations based on IoT and cognitive automation. There is an increasing need for cost-efficiency in the sector, and robotics process automation and cloudification of telecom operations are beginning to be fundamental elements of next-generation telecommunications. Telecom operators strive to provide new services to enhance their customer offerings and help improve their revenue growth. Providing innovative services to retain customers and enhance the customer experience remains the common theme across telecom operators.

Strategy implementation

Tieto continues to consistently execute its strategy in order to be the first choice for customers' in their business renewal. The company aims to accelerate value to customers through its end-to-end industry-specific software and solutions, modernization of customers' technology architecture (applications and infrastructure) and co-creation of new data-driven experience and business models.

Growth businesses

In 2018, Tieto has continued to invest in accelerating growth based on selected businesses. The largest portion of investments are targeted at selected industry solutions, including the use cases in Tieto's Data-Driven Businesses, with a view to gaining momentum towards the end of the strategy period. The focus is on the following solutions and services:

- Selected industry solutions with aggregated annual sales of around EUR 400 million in 2017
 - Lifecare (Healthcare and welfare)
 - Case Management (Public sector)

- Credit solutions (Financial services)
- Payments (Financial services)
- Hydrocarbon Management (Oil and gas segment)
- Production Excellence (Manufacturing sector)
- SmartUtilities (Energy)
- Selected growth services with annual sales of around EUR 160 million in 2017
 - Data-Driven Businesses – reported within Industry Solutions
 - Cloud services (annual sales close to EUR 110 million¹⁾)
 - Customer Experience Management (annual sales close to EUR 40 million)
 - Security Services (annual sales EUR 10 million).

In the nine-month period, sales of the growth businesses increased by around 8% in local currencies, comprising growth of 4% in the selected industry solutions and 18% in selected growth services.

In Data-Driven Businesses, several artificial intelligence-related projects for diverse uses are ongoing across industries. Tieto engages in intensive co-creation activities with customers through a well-tested process and technology stack. The focus has been on driving scale for solutions such as Intelligent Wellbeing, enabling predictive treatment models using healthcare and welfare data, and Empathic Building, utilizing IoT, analytics and system integration to ensure employee wellbeing and efficient workspaces. Additionally, Tieto's Digital Data Platform (Platform as a Service) solution contributed to significant growth of this business. The Digital Data Platform processes massive amounts of data scattered across several sources, and has been well received by customers in a number of industries. Tieto together with its clients has achieved good results, for example, from combining data from the healthcare, social welfare and education segments with a view to preventing social exclusion.

Tieto's infrastructure cloud¹⁾ (Infrastructure as a Service and Platform as a Service), mainly comprising the company's private cloud offerings, increased by 19% in the nine-month period. In addition to its infrastructure cloud, Tieto currently provides public cloud services through its OneCloud infrastructure solution as well as through several other public cloud-enabled service practices, including cloud native development, the company's Datalake solution and Software as a Service, provided by both Tieto and its partners. Tieto continues its initiatives to ensure the leading position as a cloud service provider for both application renewal and infrastructure optimization. The implementation of the Public Cloud Programme continues and Tieto has also started an internal training programme to scale up public cloud-certified professionals across its service practices.

Customer Experience Management (CEM) posted growth of 13% in local currencies in the nine-month period. There is an increasing need for partners that can combine strategy, design and technology in a cost-efficient way. Tieto has gained a strong position due to its holistic, agile and technology-agnostic approach combined with its global delivery capabilities.

Closing the NSEC acquisition in May further strengthened Tieto's cyber security capabilities and added to the company's security portfolio, including the introduction of a fully Nordic Security Operations Center. Demand for security services is good, thanks to customers' aspiration to increase cloud usage as well as increased interest in the NIS directive, EU's Directive on Security of Network and Information Systems, following GDPR. Including growth of 28% in the third quarter, nine-month sales growth in local currencies totalled 4%. The merger of NSEC offerings is helping Tieto become one of the leading security services providers in the Nordics.

¹⁾ Based on infrastructure cloud (Infrastructure as a Service and Platform as a Service), excl. selected services such as cloud-enabled consulting and shared integration services, previously included in cloud services sales.

Industry solutions' renewal continues

Active investments in improving the functionality and technological renewal have continued throughout the year. Tieto has pursued significant renewal to enable standardized software products, open technologies and scalable architectures, especially in the case of Payments, Lifecare and SmartUtilities products. This will enable faster development of functionality, access to a larger customer base and future growth.

- **Payments:** The main investments have been made in renewing the architecture and technology platform of Tieto's Virtual Account Management solution which will enable further scalability, better functionality and integration flexibility. The modernization of the product has been completed and rollout to existing customers and onboarding new customers on the product is ongoing. Further development of functionalities in the renewed product will continue as a standardized solution configurable for customers.
- **Lifecare:** The main investments are made in the development of the Healthcare Information System, which is also compliant with open Electronic Health Records specifications. Similar functionalities are included in Tieto's legacy healthcare products and the company's way forward in this area involves the development of a scalable, open and modern Healthcare Information System platform. Technical and functional feasibility is verified and tested together with customers. Further development of new functionalities is actively ongoing.
- **SmartUtilities:** The investments involve building a standard Nordic platform for customer engagement for Nordic utility companies, building on the knowledge in the industry and consolidating multiple customized products in a

common SmartUtility platform that can be delivered as a service. Initial releases of the product have been made available to pilot customers along with a first go-live. The development of the platform will continue during 2019.

Performance drivers 2018

In IT services, Tieto aims to grow faster than the market during the year. To support this ambition, Tieto is committed to actions driving competitiveness and will continue its investments in innovation and growth.

In line with its aim of accelerating growth in Sweden through its consulting-driven services, Tieto completed the acquisition of Avega in December 2017. Of Avega's annual sales of EUR 45 million, Tieto recognized around EUR 4 million in 2017. Additionally, the acquisitions of Petrostreamz (acquired in February) and NSEC (acquired in April) with aggregated annual sales of EUR 6 million have been concluded in 2018. On the other hand, sales are impacted by the divestments of the ProArc unit (annual sales of EUR 7 million) and cross-advertising services (annual sales of around EUR 2 million). Both of the divested businesses were part of Industry Solutions.

IT services' performance drivers also include

- solution launches contributing to growth
- offering development
- recruitments in new service areas and related competence development
- efficiency programme, including automation and industrialization in service deliveries
- continued focus on competitive cost structure
- salary inflation
- currency fluctuations.

With respect to its investments in Industry Solutions, EUR 1.7 million of development costs related to the Healthcare Information System platform were capitalized, according to the company's principles. At the Group level, full-year offering development costs are anticipated to remain at around 5% of Group sales.

Capital expenditure (CAPEX) is anticipated to remain below 4% of Group sales.

Actions related to the efficiency programme initiated in 2017, yielding gross savings of around EUR 20 million during 2018, have been completed. On the other hand, the cost base is impacted by recruitments of around 700 new employees in IT services in the first nine months, mainly in new competence areas.

The company's drive for efficiency and a competitive cost structure continues and a number of new savings measures are ongoing. However, Tieto estimates that its full-year restructuring costs in 2018 will be at the lower end of the previously estimated range of 1–2% of Group sales. Additionally, the company continues to seek productivity improvements, for example through automation, to offset salary inflation. Salary inflation is anticipated to amount to close to EUR 30 million in 2018.

Financial development is anticipated to be negatively affected by currency fluctuations in the full year. Based on September-average rates, the impact on full-year net sales is close to EUR 48 million and on profit around EUR 9 million.

Financial performance in July–September

Third-quarter net sales increased by 3.4% to EUR 367.1 (355.0) million, growth of 7.3% in local currencies. Acquisitions added EUR 9 million in sales, mainly affecting Business Consulting and Implementation, and the impact of divestments on sales was EUR 2 million. Currency fluctuations had a negative impact of EUR 14 million on sales, mainly due to the weaker Swedish Krona.

Third-quarter operating profit (EBIT) amounted to EUR 40.4 (41.1) million, representing a margin of 11.0% (11.6). Adjusted¹⁾ operating profit stood at EUR 41.6 (41.1) million, or 11.3% (11.6) of net sales. Further details on third-quarter adjustments are available in a table on page 35. At the Group level, offering development costs were up by EUR 3 million, of which EUR 1.7 million were capitalized. Additionally, currency changes had a negative impact of around EUR 3 million on operating profit, and profitability was affected by salary inflation.

Depreciation and amortization amounted to EUR 13.0 (13.6) million, including EUR 1.4 (1.0) million in amortization of acquisition-related intangible assets. Net financial income stood at EUR 0.3 (-0.2) million in the third quarter. Net interest expenses were EUR 0.4 (0.5) million and net gains from foreign exchange transactions EUR 0.9 (0.5) million. Other financial income and expenses amounted to EUR -0.2 (-0.2) million.

Earnings per share (EPS) totalled EUR 0.45 (0.46). Adjusted¹⁾ earnings per share amounted to EUR 0.46 (0.46).

¹⁾ adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability

Financial performance by service line

EUR million	Customer sales 7–9/2018	Customer sales 7–9/2017	Change, %	Operating profit 7–9/2018	Operating profit 7–9/2017
Technology Services and Modernization	173.4	171.8	1	23.5	23.0
Business Consulting and Implementation	51.5	42.3	22	1.6	3.6
Industry Solutions	110.1	112.1	-2	15.7	15.8
Product Development Services	31.9	28.8	11	3.1	2.1
Support Functions and Global Management	-	-	-	-3.5	-3.5
Total	367.1	355.0	3	40.4	41.1

Operating margin by service line

%	Operating margin 7–9/2018	Operating margin 7–9/2017	Adjusted ¹⁾ operating margin 7–9/2018	Adjusted ¹⁾ operating margin 7–9/2017
Technology Services and Modernization	13.6	13.4	13.8	13.5
Business Consulting and Implementation	3.1	8.4	2.8	8.2
Industry Solutions	14.2	14.1	14.3	14.1
Product Development Services	9.7	7.3	9.9	7.2
Total	11.0	11.6	11.3	11.6

¹⁾ adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability

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

In [Technology Services and Modernization](#), sales in local currencies were up by 4%. Growth was attributable to infrastructure cloud¹⁾ and application services, driven by several new agreements. In the nine-month period, sales of infrastructure cloud were up by 19% and application services by 8% in local currencies. The decline in traditional infrastructure services continued and amounted to 4% in the nine-month period. Operating margin somewhat improved, partly due to good volume development. Fourth-quarter adjusted operating margin is anticipated to be below or close to the previous year's corresponding quarter, which was supported by the efficiency programme ongoing in 2017.

In [Business Consulting and Implementation](#), sales growth was attributable to the acquisition of Avega. Strong growth in Customer Experience Management continued across the markets. Organically, sales were up by 5%. Both sales growth and operating profit were impacted by one large challenging project. Fourth-quarter adjusted operating margin is anticipated to be close to the level of the previous year's corresponding quarter.

In [Industry Solutions](#), sales in local currencies increased by 2%, organically up by 4%. The Hydrocarbon Management and Credit solutions saw strong growth and Lifecare sales outpaced the market. Sales of Tieto's Payments solutions were affected by the timing of licence sales as the third quarter in 2017 included a substantial delivery. Architectural renewal continues in a number of key solutions, including the Healthcare Information System and SmartUtilities, Tieto's solution for the energy utility segment. Offering development costs in Industry Solutions were up by EUR 4 million. Additionally, negative currency impact on profit was over EUR 1 million. In the fourth quarter, adjusted operating margin is expected to improve from the level of the previous year's corresponding quarter.

In [Product Development Services](#), sales growth in local currencies accelerated to 18%. Growth was attributable to strong volume development with the largest key customers and good development in the automotive segment. Operating margin improved as good volume development contributed to improved utilization rates. Fourth-quarter adjusted operating margin is anticipated to be close to the level of the corresponding quarter of the previous year, which included non-recurring licence sales.

¹⁾ Based on infrastructure cloud (Infrastructure as a Service and Platform as a Service), excl. selected services such as cloud-enabled consulting and shared integration services, previously included in cloud services sales.

Customer sales by industry group

EUR million	Customer sales 7–9/2018	Customer sales 7–9/2017	Change, %
Financial Services	88.2	92.2	-4
Public, Healthcare and Welfare	120.8	112.3	8
Industrial and Consumer Services	126.2	121.7	4
IT services	335.1	326.2	3
Product Development Services	31.9	28.8	11
Total	367.1	355.0	3

In **Financial Services**, sales in local currencies were down by 1%. The decline was mainly attributable to the development in Industry Solutions, affected by the timing of licence sales as the third quarter in 2017 included a substantial delivery. Credit solutions saw healthy growth and the Payment solutions have continued to expand its customer base and grow a sales pipeline for the recently launched renewed Virtual Account Management.

In **Public, Healthcare and Welfare**, sales in local currencies were up by 12%, organically 11%. Development was healthy across the markets and businesses. Overall, the market is active with several digitalization initiatives and transition projects ongoing.

In **Industrial and Consumer Services**, sales in local currencies were up by 7%, supported by the acquisition of Avega. While several new agreements were concluded, organically sales were up by 2%. Good development was experienced especially in Hydrocarbon Management.

M&A impact in July–September

At the Group level, third-quarter sales in local currencies were organically up by 5.0%. Acquisitions added EUR 9 million in sales, mainly affecting Business Consulting and Implementation, and the impact of divestments on sales was EUR 2 million.

M&A impact by service line

	Growth, % (in local currencies) 7–9/2018	Organic growth, % (in local currencies) 7–9/2018
Technology Services and Modernization	4	4
Business Consulting and Implementation	26	5
Industry Solutions	2	4
IT services	6	4
Product Development Services	18	18
Total	7	5

M&A impact by industry group

	Growth, % (in local currencies) 7–9/2018	Organic growth, % (in local currencies) 7–9/2018
Financial Services	-1	-2
Public, Healthcare and Welfare	12	11
Industrial and Consumer Services	7	2
IT services	6	4
Product Development Services	18	18
Total	7	5

Financial performance in January–September

Nine-month net sales increased by 3.9% to EUR 1 177.6 (1 133.8) million, growth of 7.1% in local currencies.

Acquisitions added EUR 34 million in sales, mainly affecting Business Consulting and Implementation, and the impact of divestments on sales was EUR 4 million. Currency fluctuations had a negative impact of EUR 37 million on sales, mainly due to the weaker Swedish Krona.

Nine-month operating profit (EBIT) amounted to EUR 109.0 (91.2) million, representing a margin of 9.3% (8.0). Adjusted¹⁾ operating profit stood at EUR 113.0 (112.2) million, or 9.6% (9.9) of net sales. Further details on adjustments are available in a table on page 35. At the Group level, offering development costs were up by EUR 5 million, of which EUR 1.7 million were capitalized. Additionally, currency changes had a negative impact of around EUR 6 million on operating profit, and profitability was affected by salary inflation.

Depreciation and amortization amounted to EUR 42.0 (40.9) million, including EUR 4.1 (3.1) million in amortization of acquisition-related intangible assets. Net financial expenses stood at EUR 1.0 (1.8) million in the nine-month period. Net interest expenses were EUR 1.4 (1.5) million and net gains from foreign exchange transactions EUR 0.9 (0.5) million. Other financial income and expenses amounted to EUR -0.6 (-0.8) million.

Earnings per share (EPS) totalled EUR 1.19 (0.96). Adjusted¹⁾ earnings per share amounted to EUR 1.23 (1.18).

²⁾ adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability

Financial performance by service line

EUR million	Customer sales 1–9/2018	Customer sales 1–9/2017	Change, %	Operating profit 1–9/2018	Operating profit 1–9/2017
Technology Services and Modernization	549.7	545.9	1	64.8	55.8
Business Consulting and Implementation	178.0	142.4	25	13.9	11.3
Industry Solutions	350.2	353.5	-1	31.6	31.7
Product Development Services	99.6	91.9	8	10.3	8.5
Support Functions and Global Management	-	-	-	-11.7	-16.1
Total	1 177.6	1 133.8	4	109.0	91.2

Operating margin by service line

%	Operating margin 1–9/2018	Operating margin 1–9/2017	Adjusted ¹⁾ operating margin 1–9/2018	Adjusted ¹⁾ operating margin 1–9/2017
Technology Services and Modernization	11.8	10.2	12.3	11.8
Business Consulting and Implementation	7.8	8.0	7.4	8.4
Industry Solutions	9.0	9.0	8.8	10.4
Product Development Services	10.4	9.3	10.5	9.6
Total	9.3	8.0	9.6	9.9

¹⁾ adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability

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

Customer sales by industry group

EUR million	Customer sales 1–9/2018	Customer sales 1–9/2017	Change, %
Financial Services	279.9	284.5	-2
Public, Healthcare and Welfare	386.8	366.2	6
Industrial and Consumer Services	411.0	391.1	5
IT services	1 078.0	1 041.9	3
Product Development Services	99.6	91.9	8
Total	1 177.6	1 133.8	4

M&A impact by service line

	Growth, % (in local currencies) 1–9/2018	Organic growth, % (in local currencies) 1–9/2018
Technology Services and Modernization	3	3
Business Consulting and Implementation	29	4
Industry Solutions	3	4
IT services	7	3
Product Development Services	14	14
Total	7	4

M&A impact by industry group

	Growth, % (in local currencies) 1–9/2018	Organic growth, % (in local currencies) 1–9/2018
Financial Services	1	0
Public, Healthcare and Welfare	9	8
Industrial and Consumer Services	8	2
IT services	7	3
Product Development Services	14	14
Total	7	4

Cash flow, financing and investments

Third-quarter net cash flow from operations amounted to EUR 18.7 (10.8) million, including the increase of EUR 24.7 (40.0) million in net working capital. The third quarter is seasonally weaker. The increase in net working capital is mainly attributable to the change in vacation payment accruals. Payments for restructuring amounted to EUR 6.6 (5.7) million.

Nine-month net cash flow from operations amounted to EUR 92.5 (84.4) million, including the increase of EUR 29.1 (28.9) million in net working capital.

Nine-month tax payments were EUR 19.2 (16.7) million.

Nine-month capital expenditure totalled EUR 28.2 (39.4) million. Capital expenditure represented 2.4% (3.5) of net sales and was mainly related to data centres. Net payments for acquisitions totalled EUR 10.2 (0.4) million.

The equity ratio was 41.9% (44.5). Gearing increased to 44.8% (36.1). Interest-bearing net debt totalled EUR 199.7 (161.4) million, including EUR 251.1 (204.5) million in interest-bearing debt, EUR 1.9 (2.6) million in finance lease liabilities, EUR 1.9 (3.3) million in finance lease receivables, EUR 0.5 (0.5) million in other interest-bearing receivables and EUR 51.0 (71.7) million in cash and cash equivalents.

Interest-bearing long-term loans amounted to EUR 100.7 (102.1) million at the end of September. The EUR 100 million bond will mature in May 2019 and it carries a coupon of fixed annual interest of 2.875%. In September, Tieto issued a new bond of EUR 100 million, which carries a coupon of fixed annual interest of 1.375% and will mature in September 2024.

Interest-bearing short-term loans amounted to EUR 152.3 (105.1) million, mainly related to commercial paper issues and joint venture cash pool balances in addition to the EUR 100 million bond maturing in May 2019. The syndicated revolving credit facility of EUR 150 million expiring in May 2021 was not in use at the end of September. The EUR 85 million financing agreement, concluded with the European Investment Bank in June 2017, was not utilized at the end of September. The agreement is a committed credit facility where Tieto has a possibility to withdraw funding for up to nine years.

Order backlog

The significance of traditional measures for the order backlog is impacted by the shift from traditional large outsourcing agreements towards agile methods and consumption-based business models. Additionally, traditional development programmes are cut into smaller projects. While this change in customer behaviour affects the order backlog levels, it is not expected to have any significant impact on Tieto's market opportunity and business outlook.

The order backlog was impacted by a negative currency effect and amounted to EUR 1 564 (1 689) million. Of the decline, around half is attributable to currency changes. Of the backlog, 21% (19) is expected to be invoiced during 2018, representing revenue value of EUR 334 (327) million for 2018. The order backlog includes all signed customer orders that have not been recognized as revenue, including estimates of the value of consumption-based contracts.

Major agreements in January–September

During the quarter, Tieto signed a 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 January, Tieto signed a new agreement with Nynäshamn municipality under which it will provide IT services to support the municipality's digitalization journey. The four-year contract is worth around SEK 43 million and includes an option to extend for up to five years.

In February, Posti, Finland's postal service, and Tieto agreed on a partnership covering data centre and cloud services with the objective of modernizing Posti's IT infrastructure. Responding to a changing industry landscape, Posti focuses on improving both quality and customer experience. The co-operation supports Posti's business-oriented solutions.

In February, Värmdö municipality selected Tieto's cloud-based solution to modernize its document and case management. The solution is based on Tieto's leading and standardized public sector solution, Public 360° Online, which includes all core processes such as billing, domain management and plan management. The system enables a more efficient way of working and improves the service provided to citizens. The contract period extends over four years, with the possibility of renewal for another three years.

In February, Suomen Osuuskappojen Keskuskunta (SOK) Corporation, a Finnish network of retail and service companies, chose Tieto to modernize its IT infrastructure, by integrating legacy applications into a SAP environment. With the solution SOK Corporation focuses on modernizing legacy applications.

In February, Asfinag, an Austrian publicly owned corporation that plans, finances, builds and maintains Austrian autobahns and handles their toll collection, signed an agreement with Tieto on IT service delivery for 2018, which

contains, for example, services for SAP and software development. As the main full-service IT partner for Asfinag, Tieto will contribute to sustainable improvement and increase efficiency in the customer's processes. The agreement has an estimated value of EUR 7 million.

In March, Högland Såg & Hyvleri, a family-owned sawmill and wood processing company in Sweden, signed an agreement with Tieto to replace its present wood supply system with Tieto's TIFF solution. TIFF, a Software-as-a-Service (SaaS) solution, optimizes wood and fibre supply operations with a comprehensive set of industry-specific modules that digitalize the processes from contract signing to invoicing and from harvesting to mill delivery.

In March, Kraft Bank, a new Norwegian bank that was launched in spring 2018 to help customers with financial difficulties, chose Tieto's AI solution for core banking to offer end-to-end automated loan processing. Tieto's solution includes processing for home loans, unsecured loans, debit cards and savings accounts, including Vipps and direct withdrawal. The engine for credit rating analysis has built-in machine learning and will provide more accurate decisions. Through open APIs, Kraft will have the opportunity to make use of a wide range of channels, such as financial institutions and partner banks, and also to utilize third-party FinTech partners. The five-year contract is worth around NOK 20 million.

In March, Tieto signed a contract extension with Sodexo, one of the world's largest multinational corporations providing the on-site business community and public sector with support services. Based on the contract, Tieto will provide service desk and data centre services to support Sodexo's digitalization journey. The five-year contract extension is worth around SEK 120 million.

In March, Tieto signed a new agreement, following a public procurement, with Haninge municipality for the delivery of IT services as part of the municipality's continued digitalization journey. The agreement includes application management, server capacity, cloud services and system operation, as well as consulting services for further development. It also gives the municipality increased access to cost-effective services on Tieto's platforms. The three-year contract is worth approximately SEK 18 million, with an option to extend it with additional three years.

In April, Tieto signed a contract with Suomen voimatieto (SVT) and SPS Energiapalvelut (SPS) to deliver the Tieto SmartUtilities solution for Billing and Customer Management. Tieto SmartUtilities is a modular Software as a Service solution designed for Nordic energy companies. The scalable cloud service meets strict information security requirements. The contract is for four years with an option to extend it with additional years.

In April, Tieto signed a contract with Palm Paper Group to deliver ProductionExcellence services for six corrugated packaging mills. Based on the solution, Palm Paper Group will harmonize sales, warehouse and logistic processes, running on a centralized Business and Production platform. The three-year contract is worth approximately EUR 2 million, with an option to roll out the solution at Palm Paper Group's 20 other corrugated packaging mills.

In May, Singapore LNG Corporation (SLNG) chose Tieto to provide the Transport and Revenue modules of Tieto Energy Components to manage hydrocarbon accounting for the entire LNG import value chain. Energy Components takes care of business processes for planning, unloading, inventory control, re-gasification, gas sales and gas delivery.

In May, the Finnish Border Guard chose Tieto to provide a new maritime search and rescue (SAR) command and control system. The system is scheduled for commissioning by the end of 2020. It will digitalize the exchange of information between maritime SAR command centres and search and rescue units and make it more effective. The command and control system will also offer a variety of ready-made interfaces to connect new, external services and functions to the management of maritime SAR operations.

In June, Tieto signed a comprehensive agreement with Region Skåne to deliver IT services that support the region's continued digitalization journey. The goal is to support the region's efforts to create safer and more equal healthcare services. The agreement is for four years with the option to extend until 2031. The contract is worth SEK 410 million.

In June, Wiener Netze, one of the biggest energy distribution companies in Europe, accepted the bid submitted by a consortium consisting of Siemens, Landis+Gyr and Iskraemeco. Wiener Netze will implement the rollout of 1.6 million smart meters in Vienna and its surroundings jointly with Siemens as the prime contractor supported by the consortium and technology partners, with Tieto as one key contributor. The Tieto SmartUtilities solution enables Siemens to manage a fully digitalized flow from planning to installation of smart meters with a high degree of automation and security.

In July, Facevalue, a business banking platform company that specializes in working capital solutions and electronic invoicing, selected Tieto to provide Card Suite software services. Tieto Card Suite will enable Facevalue to manage multiple card programmes in collaboration with different banks in key regions as part of its networked banking application for businesses and individuals across Europe. As one of the first organizations to use Tieto Card Suite in SaaS, Facevalue will gain benefits from the service, as it is not only efficient, resilient and open, but also complies with the Payment Card Industry Data Security Standard (PCI DSS).

In July, Tieto and FläktGroup, the European market leader for energy efficient indoor air technology solutions, signed a five-year extension agreement on OneCloud IaaS Onsite. Based on the agreement, Tieto provides with a platform for the applications running in the customer's premises. The extension is part of a prior significant agreement with the view to providing with Tieto OneCloud datacenter and cloud services to modernize and harmonize FläktGroup's infrastructure services.

In August, Automatia Pankkiautomaatit renewed its service agreement with Tieto. The length of the renewed agreement is five years. The agreement covers ICT infrastructure services, including production, development and test environments. Automatia delivers high-quality services to its customers based on 100% availability.

In September, APA, Australia's largest natural gas infrastructure business, partnered with Tieto to implement the Capacity Trading & Auctioning functionality. In addition to the upgrade, implementation and test automation services,

Tieto will also provide with deliverables and consulting services to help APA adapt to the changes in capacity trading reform recommended by Australian Energy Market Commission (AEMC) and achieve business value.

In September, Tieto signed an agreement to provide Nynäshamn municipality with a digitalized document and case management system. The solution, based on Tieto's new version 5.0 of Public 360°, enables more efficient and digitalized work flows for the municipality's operations, which will in turn produce better services for citizens. Hence, it supports Nynäshamn's goal to be an innovative municipality that digitally handles central processes such as cases, registers, documents and committees. The agreement is for four years with an option to extend.

Business transactions in January–September

On 31 January, Tieto divested its ProArc unit with a solution for technical document management to Constellation Software Inc. The unit was part of Software Innovation and focused on enterprise content management. Sales of the disposed business were around EUR 7 million.

On 28 February, Tieto signed an agreement to acquire Petrostreamz AS, a rapidly growing provider of advanced software and services for integrated asset modelling (IAM) in the oil and gas industry. By combining Tieto's solution Energy Components with Pipe-It, Petrostreamz software, into a forward-looking decision-making tool, the company will be better positioned to help upstream and midstream oil and gas clients derive value from data.

On 19 April, Tieto announced the acquisition of NSEC AB, a Swedish security services company employing about 30 security professionals. The acquisition further strengthens Tieto's cyber security capabilities and adds to Tieto's growing portfolio of security services. Headquartered in Stockholm, NSEC brings Tieto further capabilities in managed security operations, security consulting, as well as product resell and deployment services, and thereby strengthens Tieto's position as a leading Nordic best of suite security services provider. Net sales of the acquired company amounted to EUR 4 million in 2017.

On 31 August, Tieto divested the assets and rights of its cross-advertising services to Atex Media Command AB due to limited synergies with its businesses. Cross-advertising is a cloud-based solution that provides end-to-end multi-channel advertising management, covering the whole process from sales, CRM and booking to production and invoicing. The divested business had annual sales of around EUR 2 million and was part of Industry Solutions.

Personnel

The number of full-time employees amounted to 15 109 (13 851) at the end of September. The number of full-time employees in the global delivery centres totalled 7 460 (6 877), or 50.6% (49.6) of all personnel.

In the nine-month period, the number of full-time employees was up by a net amount of over 750. The net impact of acquisitions and outsourcing agreements was not significant.

Attrition has been on the rise during 2018 across Tieto's markets. The company, however, has been very successful in attracting and retaining talent. The 12-month rolling employee turnover stood at 11.7% (11.2) at the end of September.

Group-level salary inflation is expected to be close to 4% on average in 2018. Tieto anticipates that more than half of the salary inflation will be offset by greater offshoring and management of the age pyramid.

Management

In July, Tieto appointed Tomi Hyryläinen (M.Sc., Econ.) as Chief Financial Officer (CFO) and a member of the company's Leadership Team as of February 2019. Janne Salminen, currently Head of Treasury and Group reporting, took on the role of acting CFO as of 17 July 2018.

Shares

The number of Tieto shares amounted to 74 109 252 at the end of September. Tieto holds a total of 282 903 own shares, representing 0.4% of the total number of shares and voting rights. The number of outstanding shares, excluding the treasury shares, was 73 826 349 at the end of the period.

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 close to half of the Group's sales. Further details on management of currency risks are provided in the Financial Statements and on currency impacts at www.tieto.com/currency.

Tieto's ambition to drive customer transformation also poses a risk of lower prices in existing services while it is also anticipated to expand the company's sales opportunities. At the same time, new disruptive technologies, such as cloud computing, drive customer demand towards standardized and less labour-intensive solutions. These changes might result in the need for continuous restructuring and the need to recruit new competences. That may lead to temporarily overlapping personnel costs and uncertainty among personnel.

The company's development is relatively sensitive to changes in the demand from large customers as Tieto's top 10 customers currently account for 29% of its net sales, with Product Development Services having the highest customer concentration in the company. However, the share has decreased by several percentage points during the past years.

Typical risks faced by the IT service industry relate to the development and implementation of new technologies and software. In Tieto's case these relate to both own software development and implementation of third-party software for service delivery. Furthermore, additional technology licence fees, the quality of deliveries and related project overruns and penalties pose potential risks.

The new EU General Data Protection Regulation took effect in May 2018. Tieto is well prepared for the new regulation although there is increased uncertainty with regards to how the authorities will interpret the regulation. As many customers still continue to finalize their preparations for the regulation changes, Tieto can tap into opportunities in businesses such as security and application services.

Companies around the world are facing new risks arising from tax audits and some countries may introduce new regulation. Additionally, changes in the tax authorities' interpretations could have unfavourable impacts on taxpayers.

Full-year outlook for 2018 unchanged

Tieto expects its adjusted¹⁾ full-year operating profit (EBIT) to increase from the previous year's level (EUR 161.4 million in 2017).

¹⁾ adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability

Financial calendar 2018

29 November Capital Market Day

Figures for 2017 in this interim report have been restated due to the adoption of IFRS 15.

Income statement, EUR million

	2018 7–9	2017 7–9	2018 1–9	2017 1–9	Change %	2017 1–12
Net sales	367.1	355.0	1 177.6	1 133.8	4	1 543.4
Other operating income	3.3	3.2	14.0	10.6	32	17.4
Employee benefit expenses	-199.6	-190.0	-665.3	-653.7	2	-873.3
Depreciation, amortization and impairment losses	-13.0	-13.6	-42.0	-40.9	3	-54.7
Other operating expenses	-118.5	-114.4	-378.8	-360.8	5	-496.9
Share of results in joint ventures	1.1	0.8	3.4	2.2	55	3.2
Operating profit (EBIT)	40.4	41.1	109.0	91.2	20	139.1
Interest and other financial income	0.6	0.5	1.7	1.3	31	1.5
Interest and other financial expenses	-1.2	-1.2	-3.7	-3.6	3	-4.7
Net foreign exchange gains/losses	0.9	0.5	0.9	0.5	80	-0.2
Profit before taxes	40.7	40.8	108.0	89.4	21	135.7
Income taxes	-7.7	-6.6	-20.4	-18.4	11	-28.0
Net profit for the period	33.0	34.2	87.6	71.0	23	107.7
Net profit for the period attributable to						
Owners of the Parent company	33.0	34.2	87.6	71.0	23	107.7
Non-controlling interest	0.0	-	0.0	-	-	0.0
	33.0	34.2	87.6	71.0	23	107.7
Earnings per share attributable to owners of the Parent company, EUR per share						
Basic	0.45	0.46	1.19	0.96	24	1.46
Diluted	0.45	0.46	1.18	0.96	23	1.46

Statement of other comprehensive income, EUR million

	2018 7–9	2017 7–9	2018 1–9	2017 1–9	Change %	2017 1–12
Net profit for the period	33.0	34.2	87.6	71.0	23	107.7
Items that may be reclassified subsequently to profit or loss						
Translation differences	1.8	-0.7	-14.9	-10.7	39	-19.0
Items that will not be reclassified subsequently to profit or loss						
Remeasurements of the defined benefit plans, net of tax	-0.2	-0.2	-0.8	-1.7	-53	-2.4
Total comprehensive income	34.6	33.3	71.9	58.6	23	86.3
Total comprehensive income attributable to						
Owners of the Parent company	34.6	33.3	71.9	58.6	23	86.3
Non-controlling interest	0.0	-	0.0	-	-	0.0
	34.6	33.3	71.9	58.6	23	86.3

Statement of financial position, EUR million

	2018 30 Sep	2017 30 Sep	Change %	2017 31 Dec
Goodwill	439.7	405.8	8	441.3
Other intangible assets	43.2	48.5	-11	51.1
Property, plant and equipment	88.9	92.9	-4	94.9
Interests in joint ventures	16.5	15.3	8	16.3
Deferred tax assets	25.4	29.5	-14	25.7
Finance lease receivables	0.8	0.8	0	0.8
Other financial assets at amortized cost	0.4	0.4	0	0.4
Other financial assets at fair value through profit or loss	0.5	0.6	-17	0.5
Total non-current assets	615.5	593.8	4	631.0
Trade and other receivables	413.5	390.8	6	422.5
Defined benefit plan assets	7.0	5.3	32	7.4
Finance lease receivables	1.1	2.5	-56	2.0
Other interest-bearing receivables	0.0	0.0	-	0.0
Current tax assets	11.6	15.6	-26	8.7
Cash and cash equivalents	51.0	41.9	22	78.2
Total current assets	484.3	456.1	6	518.8
Total assets	1 099.8	1 049.9	5	1 149.9
Share capital, share premium and other reserves	117.9	119.7	-2	119.2
Retained earnings	327.5	327.9	0	356.6
Equity attributable to owners of the Parent company	445.3	447.7	-1	475.8
Non-controlling interest	0.0	-	-	0.4
Total equity	445.3	447.7	-1	476.1
Loans	100.7	102.1	-1	102.5
Deferred tax liabilities	37.1	34.2	8	38.5
Provisions	2.2	2.6	-15	2.6
Defined benefit obligations	11.0	13.2	-17	11.9
Other non-current liabilities	3.8	1.6	> 100	4.5
Total non-current liabilities	154.8	153.6	1	160.0
Trade and other payables	332.3	321.2	3	362.9
Current tax liabilities	8.9	10.0	-11	5.9
Provisions	6.2	12.4	-50	10.3
Loans	152.3	105.1	45	134.6
Total current liabilities	499.7	448.6	11	513.7
Total equity and liabilities	1 099.8	1 049.9	5	1 149.9

Statement of changes in shareholders' equity, EUR million

	Owners of the Parent company							Non- control- ing inter- est	Total equity
	Share capital	Share premium and other reserves	Own shares	Trans- lation differ- ences	Invested unre- stricted equity reserve	Retained earnings	Total		
At 31 Dec 2017	76.6	42.6	-11.6	-78.5	12.8	433.3	475.2	0.4	475.6
Adjustment on initial application of IFRS 15 and IFRS 9, net of tax	-	-	-	-	-	0.2	0.2	-	0.2
Adjustment on initial application of IFRS 2 amendment	-	-	-	-	-	4.0	4.0	-	4.0
Other adjustment	-	-	3.9	-	-	-3.9	0.0	-	0.0
At 1 Jan 2018	76.6	42.6	-7.7	-78.5	12.8	433.5	479.3	0.4	479.7
Comprehensive income									
Net profit for the period	-	-	-	-	-	87.6	87.6	0.0	87.6
Other comprehensive income, net of tax									
Remeasurements of the defined benefit plans, net of tax	-	-	-	-	-	-0.8	-0.8	-	-0.8
Translation differences	-	-1.3	-	-13.5	-	-0.1	-14.9	-	-14.9
Total comprehensive income	-	-1.3	-	-13.5	-	86.7	71.9	0.0	71.9
Transactions with owners									
Contributions and distributions									
Share-based payments	-	-	2.6	-	-	-2.5	0.1	-	0.1
Dividends	-	-	-	-	-	-103.4	-103.4	-	-103.4
Changes in ownership interests									
Acquisition of non-controlling interest without change in control	-	-	-	-	-	-2.6	-2.6	-0.4	-3.0
Total transactions with owners	-	-	2.6	-	-	-108.5	-105.9	-0.4	-106.3
At 30 Sep 2018	76.6	41.3	-5.1	-92.0	12.8	411.7	445.3	0.0	445.3

	Owners of the Parent company						Total equity
	Share capital	Share premium and other reserves	Own shares	Translation differences	Invested unrestricted equity reserve	Retained earnings	
At 31 Dec 2016	76.6	43.4	-11.6	-52.3	12.8	419.2	488.1
Adjustment on initial application of IFRS 15 and IFRS 9, net of tax	-	-	-	-	-	0.6	0.6
At 1 Jan 2017	76.6	43.4	-11.6	-52.3	12.8	419.8	488.7
Comprehensive income							
Net profit for the period	-	-	-	-	-	71.0	71.0
Other comprehensive income, net of tax							
Remeasurements of the defined benefit plans, net of tax	-	-	-	-	-	-1.7	-1.7
Translation differences	-	-0.3	-	-15.4	-	5.0	-10.7
Total comprehensive income	-	-0.3	-	-15.4	-	74.3	58.6
Transactions with owners							
Contributions and distributions							
Share-based payments	-	-	-	-	-	1.4	1.4
Dividends	-	-	-	-	-	-101.0	-101.0
Total transactions with owners	-	-	-	-	-	-99.6	-99.6
At 30 Sep 2017	76.6	43.1	-11.6	-67.7	12.8	394.5	447.7

Statement of cash flows, EUR million

	2018 7-9	2017 7-9	2018 1-9	2017 1-9	2017 1-12
Cash flow from operations					
Net profit for the period	33.0	34.2	87.6	71.0	107.7
Adjustments					
Depreciation, amortization and impairment losses	13.0	13.6	42.0	40.9	54.7
Profit/loss on sale of fixed assets, shares and business operations	-1.7	-0.2	-4.7	-0.3	0.0
Share of results in joint ventures	-1.1	-0.8	-3.4	-2.2	-3.2
Other adjustments	-0.7	1.0	1.2	1.5	-3.5
Net financial expenses	-0.3	0.2	1.0	1.8	3.4
Income taxes	7.7	6.6	20.4	18.4	28.0
Change in net working capital	-24.7	-40.0	-29.1	-28.9	-15.3
Cash generated from operations	25.2	14.6	115.0	102.2	171.8
Net financial expenses paid	-1.1	0.4	-6.4	-4.6	-7.4
Dividends received	0.0	-	3.2	3.5	3.5
Income taxes paid	-5.4	-4.2	-19.2	-16.7	-16.9
Net cash flow from operations	18.7	10.8	92.5	84.4	151.0
Cash flow from investing activities					
Acquisition of Group companies and business operations, net of cash acquired	-	-	-10.2	-0.4	-43.7
Capital expenditures	-9.6	-9.2	-28.3	-35.4	-47.0
Disposal of Group companies and business operations, net of cash disposed	1.3	-	8.4	-	-0.3
Sales of fixed assets	0.0	0.0	0.1	0.2	0.4
Change in loan receivables	0.3	0.8	0.9	2.2	2.7
Net cash flow from investing activities	-7.8	-8.4	-29.0	-33.4	-87.9
Cash flow from financing activities					
Dividends paid	-	-	-103.4	-101.0	-101.0
Payments of finance lease liabilities	-0.2	-0.2	-0.6	-0.8	-1.0
Change in interest-bearing liabilities	-26.1	-11.0	15.2	32.9	61.8
Other financing cash flow	0.9	-	-3.3	-	-
Net cash flow from financing activities	-25.4	-11.2	-92.1	-68.9	-40.2
Change in cash and cash equivalents	-14.5	-8.8	-28.6	-17.9	22.9
Cash and cash equivalents at the beginning of period	67.4	51.3	78.2	56.7	56.7
Foreign exchange differences	-1.9	-0.6	1.4	3.1	-1.4
Change in cash and cash equivalents	-14.5	-8.8	-28.6	-17.9	22.9
Cash and cash equivalents at the end of period	51.0	41.9	51.0	41.9	78.2

Notes to the condensed financial statements

Basis of preparation

This interim report is unaudited and it is prepared in accordance with 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 2017, except for the adoption of IFRS 15, IFRS 9 and the amendment to IFRS 2, as described below.

All presented figures in this interim report have been rounded and consequently, the sum of individual figures can deviate from the presented sum figure. Key figures have been calculated using exact figures.

The sales and profitability of Tieto are subject to seasonal variations. Usually, the third-quarter sales are affected by vacation period and the reversal of vacation accruals has a positive effect on profitability. Typically, the fourth-quarter sales and margins are positively affected by higher licence sales for Tieto's industry-specific software.

Adoption of new and amended IFRS standards and interpretations

IFRS 15 'Revenue from Contracts with Customers'

Starting from 1 January 2018, the Group has applied IFRS 15 Revenue from Contracts with Customers as issued in May 2014. The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in IFRS 15, the new principles have been adopted retrospectively and comparatives for the 2017 financial year have been restated.

The net impact on 2017 net sales was EUR 0.2 million, on costs EUR 0.3 million and on operating profit EUR -0.1 million.

Revenue comprises the fair value of the sale of IT services and goods, net of value-added tax, discounts and exchange rate differences. The business models consist of continuous services, software solutions, projects and consulting. Goods mainly include sales of software licences.

Revenue from each of the business models is recognized as follows:

Continuous services

- Revenue from contracts for continuous services is based on service volumes and recognized over the accounting period in which the services are rendered. The Group accounts for continuous services in a contract as a series of distinct goods or services, as one performance obligation, when the criteria defined in IFRS 15 are met. Transition costs incurred in the initial phase of continuous operating service contracts usually include set-up activities that do not result in the transfer of a promised good or service and are not identified as a performance obligation to the customer. The costs of set-up activities are not expensed but recognized as an asset, provided the criteria defined in IFRS 15 are met.

Software solutions

- In product business, the contracts with customers typically include software licences, implementation and maintenance. Depending on the customization and integration level, the software licences are either distinct or not distinct performance obligations and accordingly, are recognized either separately when control is transferred to the customer or together with the implementation. Revenue from maintenance services is recognized over the agreed maintenance period.
- Software as a service (SaaS). SaaS contracts comprise implementation projects and continuing service contracts. The implementation projects for these contracts include set-up activities and implementation services covering customer onboarding to standardized, module-based software with some customization that is not regarded as significant. The implementation services are identified as distinct performance obligations from continuing SaaS service. Set-up activities are accounted for similarly as for transition in connection to the operating services.

Projects and consulting

- Revenue from service contracts is based on fixed prices or time and materials and recognized over the accounting period in which the service is rendered or project completed.
- Warranty obligations. The Group provides assurance-type warranties for software or application delivery projects and does not provide extended warranties with services in its contracts with customers. The warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Revenue is recognized over time provided the defined criteria in IFRS 15 are met. The services sold to customers are generally satisfied over time given that either the customer simultaneously receives and consumes the benefits provided by the Group, or the Group's performance does not create an asset with an alternative use for the Group, in which case there is an enforceable right to payment for work completed to date. Recognition at a point in time mostly relates to distinct licences, and represents a minor portion of total revenue.

IFRS 9 'Financial Instruments'

Tieto Group started applying IFRS 9 on 1 January 2018. The Group applies the exemption, as allowed by the standard, not to restate comparative periods. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 have been recognized as a decrease of EUR 0.4 million (net of tax) in opening retained earnings for 1 January 2018.

IFRS 9 implementation also resulted in changes in the accounting policies applied to financial instruments.

Classification and Measurement

According to IFRS 9, the financial instrument category already describes what measurement method is employed. The Group has evaluated the asset groups within the scope of IFRS 9 using both business model and contractual cash flow tests, resulting in the following changes:

- Available-for-sale category assets are presented under the non-current assets category "Other financial assets at fair value through profit or loss" (no change in measurement).
- Trade receivables sold under non-recourse factoring agreements are classified as financial assets at fair value through profit or loss and presented separately from other trade receivables in disclosures. Not subject to impairment.
- Other interest bearing receivables will be presented under the assets category "Other financial assets at amortized cost".

No changes in classification and measurement of other financial assets and financial liabilities.

Impairment of financial assets

Financial assets subject to impairment calculations under IFRS 9 are: trade receivables, contract assets, finance lease receivables, cash and cash equivalents.

In the case of finance lease receivables, impairment will be evaluated on an individual case-by-case basis, at least on each reporting date. For Cash and cash equivalents Tieto Group considers these not to be subject to impairment unless unexpected circumstances occur.

For all the named assets, Tieto has elected to apply the simplified option and always calculates lifetime expected credit losses (ECL).

The Group has elected to use the practical expedient and calculate ECL based on a pre-defined provision matrix. Therefore, the Group has performed its external customer segmentation so that each customer segment would bear similar credit characteristics, based on the following criteria:

- Country Group (Finland, Sweden, Norway, Other European Union countries, Other countries)
- Industry Group (Financial Services, Public Healthcare & Welfare, Industrial Customer Services, Product Development Services)
- Balance due status (Not yet due, overdue 1-7 days, 8-30 days, 31-60 days, 61-90 days, over 90 days)

For each segment, the ECL rate (expressed as a percentage) indicates the historical average defaults identified during the past three years and also Tieto's assessment of the possible impact from changes in the overall economic environment in which its customers operate.

These general provisions can be increased if the customer has filed for bankruptcy but has not yet registered the fact or if there are any facts or circumstances indicating that the customer's credit risk is above industry/country average.

When calculating ECL for contract assets, the ECL rate set for "not yet due" invoices in the provision matrix is to be used.

Hedge accounting

Tieto had no open hedge accounting relationships as of either 31 December 2017 or 30 September 2018, and therefore there was no impact upon transition. Similarly, the new rules introduced by IFRS 9 had no impact on the Q3 result.

Amendments to IFRS 2 'Share-based Payments – Classification and Measurement of Share-based Payment Transactions'

The Group adopted the Amendment to IFRS 2 Share-based Payments on 1 January 2018. The amendments clarify the accounting for certain types of arrangements. Three accounting areas are covered: measurement of cash-settled share-based payments, classification of share-based payments settled net of tax withholdings, and accounting for a modification of a share-based payment from cash-settled to equity-settled.

The Group has share-based incentive plans for key employees for which more information is disclosed in the 2017 financial statements. The amendment regarding the classification of share-based payments settled net of tax withholdings had an impact on the consolidated financial statements of the Group. As Tieto's share-based payment plans will according to the amendment be fully accounted for as equity-settled, the fair values of the programmes over the vesting period will be fully determined based on the share price at the grant date. On transition, the Group has reclassified EUR 4.0 million from liabilities to equity.

IFRS 16 Leases

The Group will adopt IFRS 16 Leases on 1 January 2019. It will result in almost all leases being recognized on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. Only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has identified operating lease commitments of EUR 153.5 million. The concepts of agreements processed as contingent off-balance sheet liabilities and concepts under IFRS 16 reporting are somewhat different, which is why the number of agreements and also amounts of the balance sheet contracts, may differ from currently reported amounts. Depreciation of right of use assets and interest expenses on newly recognized lease liabilities will replace rent expenses (currently part of personnel and other operating expenses), which will result in improved EBIT and decrease in Group net result (due to "front loading" effect).

The majority of the operating leases are for the use of office buildings, employee cars and data centers. The Group has initiated IFRS 16 implementation project already in 2017, IFRS 16 analysis is on-going and will be completed during 2018. The accounting software provider has been selected. In further steps, the focus is on the data collection activities and implementation of necessary changes in tools and processes. Tieto plans to apply the modified retrospective method, which means that the comparative figures will not be restated.

Critical accounting estimates and assumptions

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from the estimates. The critical accounting estimates and assumptions are disclosed in the 2017 financial statements.

Segment information

Customer sales by service line, EUR million

	2018 7–9	2017 7–9	Change %	2018 1–9	2017 1–9	Change %	2017 1–12
Technology Services and Modernization	173.4	171.8	1	549.7	545.9	1	735.4
Business Consulting and Implementation	51.5	42.3	22	178.0	142.4	25	195.9
Industry Solutions	110.1	112.1	-2	350.2	353.5	-1	486.0
Product Development Services	31.9	28.8	11	99.6	91.9	8	126.1
Group total	367.1	355.0	3	1 177.6	1 133.8	4	1 543.4

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

	2018 7–9	2017 7–9	Change %	2018 1–9	2017 1–9	Change %	Share %	2017 1–12	Share %
Finland	159.3	153.9	4	512.5	498.7	3	44	675.9	44
Sweden	139.5	138.3	1	462.2	436.9	6	39	599.0	39
Norway	36.8	36.9	0	112.7	121.3	-7	10	161.2	10
Other	31.6	26.0	22	90.3	76.9	17	8	107.4	7
Group total	367.1	355.0	3	1 177.6	1 133.8	4	100	1 543.4	100

In Finland, IT services sales increased with 3.7% during the third quarter and 2.9% in the nine month period.

In Sweden, growth in local currencies was 9.9% during the third quarter and 12.9% in the nine month period. IT services grew in local currencies by 9.7% during the third quarter and 13.9% in the nine month period.

In Norway, sales increased in local currencies with 2.2% during the third quarter and decreased with 3.4% in the nine month period.

Customer sales by industry group, EUR million

	2018 7–9	2017 7–9	Change %	2018 1–9	2017 1–9	Change %	2017 1–12
Financial Services	88.2	92.2	-4	279.9	284.5	-2	384.4
Public, Healthcare and Welfare	120.8	112.3	8	386.8	366.2	6	501.7
Industrial and Consumer Services	126.2	121.7	4	411.0	391.1	5	531.2
Product Development Services	31.9	28.8	11	99.6	91.9	8	126.1
Group total	367.1	355.0	3	1 177.6	1 133.8	4	1 543.4

Customer sales to the telecom sector were EUR 167 (177) million during January–September.

Revenues derived from any single external customer during January–September 2018 or 2017 did not exceed the 10% level of the total net sales of the Group.

Operating profit (EBIT) by service line, EUR million

	2018 7–9	2017 7–9	Change %	2018 1–9	2017 1–9	Change %	2017 1–12
Technology Services and Modernization	23.5	23.0	2	64.8	55.8	16	78.5
Business Consulting and Implementation	1.6	3.6	-56	13.9	11.3	23	16.1
Industry Solutions	15.7	15.8	-1	31.6	31.7	0	54.4
Product Development Services	3.1	2.1	46	10.3	8.5	21	12.0
Support Functions and Global Management	-3.5	-3.5	0	-11.7	-16.1	28	-21.9
Operating profit (EBIT)	40.4	41.1	-2	109.0	91.2	19	139.1

Operating margin (EBIT) by service line, %

	2018 7–9	2017 7–9	Change %	2018 1–9	2017 1–9	Change %	2017 1–12
Technology Services and Modernization	13.6	13.4	0	11.8	10.2	2	10.7
Business Consulting and Implementation	3.1	8.4	-5	7.8	8.0	0	8.2
Industry Solutions	14.2	14.1	0	9.0	9.0	0	11.2
Product Development Services	9.7	7.3	2	10.4	9.3	1	9.5
Operating margin (EBIT)	11.0	11.6	-1	9.3	8.0	1	9.0

Adjusted operating profit (EBIT) by service line, EUR million

	2018 7–9	2017 7–9	Change %	2018 1–9	2017 1–9	Change %	2017 1–12
Technology Services and Modernization	23.9	23.1	4	67.6	64.3	5	88.6
Business Consulting and Implementation	1.5	3.5	-58	13.2	11.9	10	16.3
Industry Solutions	15.8	15.8	0	30.7	36.9	-17	57.7
Product Development Services	3.2	2.1	52	10.4	8.8	18	12.3
Support Functions and Global Management	-2.7	-3.3	17	-8.9	-9.8	9	-13.4
Adjusted operating profit (EBIT)	41.6	41.1	1	113.0	112.2	1	161.4

Adjusted operating margin (EBIT) by service line, %

	2018 7–9	2017 7–9	Change %	2018 1–9	2017 1–9	Change %	2017 1–12
Technology Services and Modernization	13.8	13.5	0	12.3	11.8	1	12.1
Business Consulting and Implementation	2.8	8.2	-5	7.4	8.4	-1	8.3
Industry Solutions	14.3	14.1	0	8.8	10.4	-2	11.9
Product Development Services	9.9	7.2	3	10.5	9.6	1	9.7
Adjusted operating margin (EBIT)	11.3	11.6	0	9.6	9.9	0	10.5

Personnel by service line

	End of period			Average			
	2018 1–9	Change %	Share %	2017 1–9	2017 1–12	2018 1–9	2017 1–9
Technology Services and Modernization	6 077	6	40	5 721	5 757	5 932	5 804
Business Consulting and Implementation	2 350	26	16	1 871	2 224	2 296	1 893
Industry Solutions	4 105	5	27	3 900	3 925	4 069	3 871
Product Development Services	1 606	8	11	1 485	1 532	1 564	1 381
Service lines total	14 138	9	94	12 978	13 438	13 862	12 951
Industry groups	344	33	2	258	279	339	256
Support Functions and Global Management	627	2	4	615	612	626	620
Group total	15 109	9	100	13 851	14 329	14 827	13 827

Personnel by country

	End of period			Average			
	2018 1–9	Change %	Share %	2017 1–9	2017 1–12	2018 1–9	2017 1–9
Finland	3 408	3	23	3 312	3 364	3 400	3 409
Sweden	3 065	13	20	2 701	3 036	3 071	2 705
India	2 717	7	18	2 530	2 571	2 690	2 500
Czech Republic	2 506	12	17	2 232	2 254	2 387	2 241
Latvia	656	5	4	623	612	629	632
Norway	605	-1	4	611	600	599	613
Poland	669	29	4	520	538	622	467
China	495	17	3	424	460	480	368
Estonia	304	3	2	295	274	289	293
Austria	153	10	1	139	134	145	136
Lithuania	119	22	1	97	106	111	96
Other	413	12	3	368	381	404	367
Group total	15 109	9	100	13 851	14 329	14 827	13 827
Onshore countries	7 460	7	49	6 975	7 350	7 441	7 074
Offshore countries	7 649	11	51	6 877	6 979	7 386	6 753
Group total	15 109	9	100	13 851	14 329	14 827	13 827

Non-current assets by country, EUR million

	2018 30 Sep	2017 30 Sep	Change %	2017 31 Dec
Finland	77.1	86.5	-11	84.6
Sweden	38.8	35.9	8	42.8
Norway	9.1	13.2	-31	12.0
Other	7.2	5.8	23	6.5
Total non-current assets	132.2	141.4	-7	145.9

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

	2018 7–9	2017 7–9	Change %	2018 1–9	2017 1–9	Change %	2017 1–12
Technology Services and Modernization	7.7	8.0	-4	23.6	24.4	-3	32.5
Business Consulting and Implementation	0.0	0.1	-37	0.1	0.2	-33	0.2
Industry Solutions	0.2	0.2	1	0.6	0.7	-13	0.9
Product Development Services	0.0	0.0	-	0.0	0.1	-	0.1
Support Functions and Global Management	1.7	1.4	19	5.1	4.1	24	5.7
Group total	9.6	9.7	-1	29.5	29.4	0	39.5

Amortization on intangible assets recognized at fair value from acquisitions by service line, EUR million

	2018 7–9	2017 7–9	Change %	2018 1–9	2017 1–9	Change %	2017 1–12
Technology Services and Modernization	-	-	-	-	-	-	-
Business Consulting and Implementation	0.4	0.1	> 100	1.2	0.3	> 100	0.5
Industry Solutions	1.0	0.9	4	2.8	2.8	1	3.7
Product Development Services	-	-	-	-	-	-	-
Support Functions and Global Management	-	-	-	-	-	-	-
Group total	1.4	1.0	34	4.1	3.1	30	4.3

Amortization on other intangible assets by service line, EUR million

	2018 7–9	2017 7–9	Change %	2018 1–9	2017 1–9	Change %	2017 1–12
Technology Services and Modernization	1.8	2.2	-20	7.1	6.4	12	8.5
Business Consulting and Implementation	0.1	0.1	5	0.3	0.3	2	0.3
Industry Solutions	0.1	0.2	-36	0.4	0.5	-20	0.6
Product Development Services	-	-	-	-	-	-	-
Support Functions and Global Management	0.1	0.4	-79	0.7	1.3	-41	1.5
Group total	2.0	2.9	-29	8.5	8.3	1	10.9

Acquisitions during January–September in 2018

Tieto completed the following acquisitions during January–September in 2018:

* **Petroleumstreamz AS**, ownership 100% of the shares, effective from 1 February 2018

* **NSEC AB**, ownership 100% of the shares, effective from 1 May 2018

Petroleumstreamz AS

Petroleumstreamz AS is a growing provider of advanced software and services for integrated asset modelling (IAM) onshore and offshore in the oil and gas industry. The acquisition further expands Tieto's portfolio of advanced solutions and capabilities in the upstream business of oil and gas industry. Petroleumstreamz is part of Industry Solutions segment.

The following table summarizes the acquisition date fair values of the consideration transferred as well as the recognized amounts of assets acquired and liabilities assumed. Fair values of the intangible assets are provisional due to ongoing identification and valuation.

Consideration

EUR million	
Paid in cash	3.4
Contingent consideration	3.7
Total consideration	7.1

Recognized amounts of identifiable assets acquired and liabilities assumed

EUR million	
Property, plant and equipment	0.0
Intangible assets	1.3
Deferred tax assets	0.5
Trade and other receivables	0.9
Cash and cash equivalents	0.1
Loans	-1.3
Deferred tax liabilities	-0.3
Trade and other payables	-0.5
Goodwill	6.3
Total	7.1

Contingent consideration is mainly determined by the margin development of the acquired and combined business during 3 year period starting from the acquisition date.

The identified intangible assets relate to customer relationships and technology. Goodwill is attributable to market share, synergies and new competencies. 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 entity has contributed approximately EUR 0.8 million to the revenue and EUR -0.7 million to the operating profit of the Group. If the business combination had taken place at the beginning of the year, the revenue for the Group would have been approximately EUR 0.9 million and profit approximately EUR -0.7 million.

NSEC AB

NSEC AB is a Swedish security services company. The acquisition will further enlarge Tieto's capabilities in managed security operations, security consulting, as well as product resell and deployment services. The acquisition is not significant and therefore no separate disclosures are presented. Goodwill from the acquisition amounted to around EUR 1.45 million.

Acquisition of non-controlling interest in subsidiaries of Avega

During January–September 2018, Tieto increased its ownership in the Avega Group by acquiring non-controlling interests with a total amount of EUR 3.0 million.

Disposals during January–September in 2018

Tieto disposed of the following businesses during January - September in 2018:

* ProArc business in Norway, as of January 2018

* Cross-advertising business in the Nordic countries, as of August 2018

ProArc

ProArc is a technical document management solution with focus mainly on oil, gas and engineering. The unit was part of Software Innovation focused on enterprise content management. Sales of the disposed business were around EUR 7 million. ProArc was part of Industry Solutions segment.

The capital gain related to the disposed businesses is specified below. The capital gain calculation is provisional due to ongoing identification and valuation of the underlying assets and liabilities.

EUR million	
Intangible assets	1.7
Deferred tax liabilities	-0.4
Current liabilities	-0.3
Fair value of net assets	1.0
Goodwill allocation on disposals	3.1
Total net asset allocation on disposals	4.1
Transaction costs	0.7
Received in cash	7.8
Capital gain	3.0

Transaction costs are included in the cash flow from investing activities.

Cross-advertising

Cross-advertising is an advertising order management platform. It is a cloud-based solution that provides end-to-end multi-channel advertising management, covering the whole process from sales, CRM, booking to production and invoicing. The business was part of Industry Solutions segment. The capital gain recognized on the disposal is EUR 1.6 million. The disposal is not significant and therefore no separate disclosures are presented.

Net working capital in the statement of financial position, EUR million

	2018 30 Sep	2017 30 Sep	Change %	2017 31 Dec
Trade receivables	305.5	265.7	15	309.3
Other working capital receivables	107.9	125.1	-14	113.2
Working capital receivables included in assets	413.4	390.8	6	422.5
Trade payables	101.4	84.0	21	104.2
Personnel related accruals	127.8	132.9	-4	155.0
Provisions	8.4	15.0	-44	12.9
Other working capital liabilities	99.2	98.3	1	100.0
Working capital liabilities included in liabilities	336.7	330.2	2	372.1
Net working capital in the statement of financial position	76.7	60.6	27	50.4

Derivatives, EUR million

Nominal amounts of derivatives

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

	2018 30 Sep	2017 31 Dec
Foreign exchange forward contracts	171.7	179.6
Electricity price future contracts	0.6	0.9

Fair values of derivatives

The net fair values of derivative financial instruments at the end of the reporting period	2018 30 Sep	2017 31 Dec
Foreign exchange forward contracts	-0.2	0.8
Electricity price future contracts	0.2	0.1

Derivatives are used for economic hedging purposes only.

Gross positive fair values of derivatives	2018 30 Sep	2017 31 Dec
Foreign exchange forward contracts	0.9	1.7
Electricity price future contracts	0.2	0.1

Gross negative fair values of derivatives	2018 30 Sep	2017 31 Dec
Foreign exchange forward contracts	-1.1	-0.9
Electricity price future contracts	-	0.0

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

Fair value measurement of financial assets and liabilities

EUR million				
30 Sep 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	1.1	-	1.1
Other	-	-	0.5	0.5
Financial liabilities at fair value through profit or loss				
Derivatives	-	-1.1	-	-1.1

EUR million				
31 Dec 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	1.8	-	1.8
Available-for-sale investments	-	-	0.5	0.5
Financial liabilities at fair value through profit or loss				
Derivatives	-	-0.9	-	-0.9

Other financial assets at fair value through profit or loss' (Available-for-sale investments in 2017) 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.

Trade Receivables sold via non-recourse factoring (1.0 MEUR at 30 September 2018) are classified as Financial assets at fair value through profit or loss according to IFRS 9. The fair value approximates the carrying value less interest paid to financier, which is deemed to be non-material and presented in financial items.

Commitments and contingencies, EUR million

	2018 30 Sep	2017 31 Dec
For Tieto obligations		
Pledges	-	1.6
Mortgages	-	3.4
Guarantees		
Performance guarantees	1.2	0.9
Lease guarantees	9.0	8.6
Other	0.3	0.5
Other Tieto obligations		
Rent commitments due in one year	37.3	41.6
Rent commitments due in 1–5 years	84.4	98.0
Rent commitments due after 5 years	12.6	17.9
Operating lease commitments due in one year	9.3	10.9
Operating lease commitments due in 1–5 years	9.9	12.0
Operating lease commitments due after 5 years	0.0	0.4
Commitments to purchase assets	10.8	7.4
Other	1.0	1.6

Number of shares

	2018 7–9	2017 7–9	2018 1–9	2017 1–9	2017 1–12
Outstanding shares, end of period					
Basic	73 826 349	73 723 125	73 826 349	73 723 125	73 723 125
Effect of dilutive share-based benefit plans	117 221	167 285	122 149	167 718	151 786
Diluted	73 943 570	73 890 410	73 948 498	73 890 843	73 874 911
Outstanding shares, average					
Basic	73 826 349	73 720 853	73 798 737	73 722 376	73 722 565
Effect of dilutive share-based benefit plans	117 221	167 285	122 149	167 718	151 786
Diluted	73 943 570	73 888 138	73 920 886	73 890 094	73 874 351
Company's possession of its own shares					
End of period	282 903	386 127	282 903	386 127	386 127
Average	282 903	386 876	310 515	386 876	386 687

Key figures

	2018 7–9	2017 7–9	2018 1–9	2017 1–9	2017 1–12
Earnings per share, EUR					
Basic	0.45	0.46	1.19	0.96	1.46
Diluted	0.45	0.46	1.18	0.96	1.46
Equity per share, EUR	6.03	6.07	6.03	6.07	6.46
Return on equity, 12-month rolling, %	27.8	23.5	27.8	23.5	22.3
Return on capital employed, 12-month rolling, %	23.5	21.0	23.5	21.0	20.5
Equity ratio, %	41.9	44.5	41.9	44.5	42.5
Interest-bearing net debt, EUR million	199.7	161.4	199.7	161.4	155.7
Gearing, %	44.8	36.1	44.8	36.1	32.7
Capital expenditure, EUR million	8.7	9.1	28.2	39.4	50.8
Acquisitions, EUR million	-	-	12.2	-	49.3

Adjusted operating profit (EBIT)

Tieto uses “Adjusted operating profit (EBIT)” as an alternative performance measure to better reflect its operational business performance and to enhance comparability between financial periods. This alternative performance measure is reported in addition to, but not as a substitute for, the performance measures reported in accordance to IFRS. Adjustments include restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability.

EUR million	2018 7–9	2017 7–9	2018 1–9	2017 1–9	2017 1–12
Operating profit (EBIT)	40.4	41.1	109.0	91.2	139.1
+ restructuring costs	2.5	0.2	5.4	18.9	22.7
+ premises related expenses	0.1	-	0.1	-	-
- capital gains	-1.6	-	-4.6	-	-
+ capital losses	-	-	-	-	0.3
+/- M&A related items	0.2	0.0	1.1	0.0	-0.2
+/- other items	-	-0.1	2.1 ¹⁾	2.1 ²⁾	-0.5 ³⁾
Adjusted operating profit (EBIT)	41.6	41.1	113.0	112.2	161.4

¹⁾ Includes write-offs related to obsolete assets and a value added tax correction of EUR 1.2 million from previous years in Russia.

²⁾ In Sweden, one pension plan treated as a defined benefit plan was closed and a new contribution plan was established. Due to this, net costs of EUR 1.1 million was recognized.

³⁾ In Finland, the active employees have been able to transfer their defined benefit pension to a defined contribution plan from 1 Jan 2017, and some have chosen this option. As a result, a settlement gain of EUR 2.4 million was recognized in 2017 personnel expenses.

Quarterly figures

Key figures

	2018 7-9	2018 4-6	2018 1-3	2017 10-12	2017 7-9	2017 4-6	2017 1-3
Earnings per share, EUR							
Basic	0.45	0.33	0.41	0.50	0.46	0.28	0.22
Diluted	0.45	0.33	0.41	0.50	0.46	0.28	0.22
Equity per share, EUR	6.03	5.55	5.29	6.46	6.07	5.61	5.45
Return on equity, 12-month rolling, %	27.8	30.5	30.7	22.3	23.5	23.6	25.3
Return on capital employed, 12-month rolling, %	23.5	24.1	29.2	20.5	21.0	21.0	25.8
Equity ratio, %	41.9	38.2	36.3	42.5	44.5	40.6	39.2
Interest-bearing net debt, EUR million	199.7	209.2	100.7	155.7	161.4	164.6	38.0
Gearing, %	44.8	51.1	25.8	32.7	36.1	39.8	9.5
Capital expenditure, EUR million	8.7	11.4	8.2	11.4	9.1	21.0	9.3
Acquisitions, EUR million	-	2.3	9.9	49.3	-	-	-

Income statement, EUR million

	2018 7-9	2018 4-6	2018 1-3	2017 10-12	2017 7-9	2017 4-6	2017 1-3
Net sales	367.1	404.1	406.3	409.6	355.0	385.6	393.1
Other operating income	3.3	3.5	7.2	6.8	3.2	4.3	3.1
Employee benefit expenses	-199.6	-231.5	-234.2	-219.7	-190.0	-224.0	-239.7
Depreciation, amortization and impairment losses	-13.0	-15.2	-13.8	-13.8	-13.6	-13.6	-13.7
Other operating expenses	-118.5	-130.9	-129.3	-136.1	-114.4	-124.9	-121.5
Share of results in joint ventures	1.1	1.3	1.0	1.0	0.8	0.7	0.7
Operating profit (EBIT)	40.4	31.3	37.3	47.9	41.1	28.1	22.0
Financial income and expenses	0.3	-0.6	-0.7	-1.6	-0.2	-0.6	-1.0
Profit before taxes	40.7	30.6	36.7	46.4	40.8	27.5	21.0
Income taxes	-7.7	-5.9	-6.8	-9.6	-6.6	-6.6	-5.2
Net profit for the period	33.0	24.7	29.9	36.7	34.2	20.9	15.9

Statement of financial position, EUR million

	2018 30 Sep	2018 30 Jun	2018 31 Mar	2017 31 Dec	2017 30 Sep	2017 30 Jun	2017 31 Mar
Goodwill	439.7	437.5	437.4	441.3	405.8	405.0	409.5
Other intangible assets	43.2	43.7	46.1	51.1	48.5	50.5	47.3
Property, plant and equipment	88.9	90.4	92.2	94.9	92.9	97.1	94.1
Interests in joint ventures	16.5	15.4	14.2	16.3	15.3	14.4	13.8
Other non-current assets	27.1	28.2	28.5	27.4	31.3	31.1	32.2
Total non-current assets	615.5	615.2	618.4	631.0	593.8	598.1	596.9
Trade receivables and other current assets	433.3	431.7	459.8	440.6	414.2	424.2	419.6
Cash and cash equivalents	51.0	67.4	53.9	78.2	41.9	51.3	76.9
Total current assets	484.3	499.1	513.7	518.8	456.1	475.4	496.5
Total assets	1 099.8	1 114.3	1 132.1	1 149.9	1 049.9	1 073.4	1 093.5
Total equity	445.3	409.5	390.7	476.1	447.7	413.9	401.9
Non-current loans	100.7	1.7	101.7	102.5	102.1	103.7	104.0
Other non-current liabilities	54.1	54.7	55.0	57.5	51.5	54.7	56.5
Total non-current liabilities	154.8	56.5	156.8	160.0	153.6	158.4	160.5
Trade payables and other current liabilities	341.2	364.8	521.1	368.8	331.2	368.3	496.1
Provisions	6.2	5.9	7.8	10.3	12.4	16.0	18.3
Current loans	152.3	277.6	55.7	134.6	105.1	116.7	16.7
Total current liabilities	499.7	648.3	584.6	513.7	448.6	501.1	531.1
Total equity and liabilities	1 099.8	1 114.3	1 132.1	1 149.9	1 049.9	1 073.4	1 093.5

Statement of cash flows, EUR million

	2018 7–9	2018 4–6	2018 1–3	2017 10–12	2017 7–9	2017 4–6	2017 1–3
Cash flow from operations							
Net profit	33.0	24.7	29.9	36.7	34.2	20.9	15.9
Adjustments	16.9	19.9	19.5	19.3	20.4	20.6	19.1
Change in net working capital	-24.7	-22.4	18.0	13.5	-40.0	-35.9	47.1
Cash generated from operations	25.2	22.2	67.5	69.6	14.6	5.6	82.0
Net financial expenses paid	-1.1	-3.0	-2.3	-2.8	0.4	-5.6	0.6
Dividends received	0.0	0.0	3.2	-	-	-	3.5
Income taxes paid	-5.4	-6.9	-6.9	-0.2	-4.2	-6.1	-6.4
Net cash flow from operations	18.7	12.3	61.5	66.6	10.8	-6.1	79.7
Net cash flow from investing activities	-7.8	-13.6	-7.6	-54.5	-8.4	-15.4	-9.6
Net cash flow from financing activities	-25.4	14.3	-81.0	28.7	-11.2	-6.0	-51.7
Change in cash and cash equivalents	-14.5	13.0	-27.1	40.8	-8.8	-27.5	18.4
Cash and cash equivalents at the beginning of period	67.4	53.9	78.2	41.9	51.3	76.9	56.7
Foreign exchange differences	-1.9	0.5	2.8	-4.5	-0.6	1.9	1.8
Change in cash and cash equivalents	-14.5	13.0	-27.1	40.8	-8.8	-27.5	18.4
Cash and cash equivalents at the end of period	51.0	67.4	53.9	78.2	41.9	51.3	76.9

Quarterly figures by segments

Customer sales by service line, EUR million

	2018 7–9	2018 4–6	2018 1–3	2017 10–12	2017 7–9	2017 4–6	2017 1–3
Technology Services and Modernization	173.4	186.8	189.5	189.5	171.8	185.6	188.5
Business Consulting and Implementation	51.5	64.3	62.1	53.5	42.3	48.9	51.2
Industry Solutions	110.1	119.4	120.7	132.5	112.1	119.8	121.6
Product Development Services	31.9	33.7	34.0	34.2	28.8	31.3	31.8
Group total	367.1	404.1	406.3	409.6	355.0	385.6	393.1

Customer sales by industry group, EUR million

	2018 7–9	2018 4–6	2018 1–3	2017 10–12	2017 7–9	2017 4–6	2017 1–3
Financial Services	88.2	95.3	96.4	99.9	92.2	96.4	95.9
Public, Healthcare and Welfare	120.8	133.2	132.9	135.4	112.3	126.5	127.4
Industrial and Consumer Services	126.2	141.9	143.0	140.1	121.7	131.5	137.9
Product Development Services	31.9	33.7	34.0	34.2	28.8	31.3	31.8
Group total	367.1	404.1	406.3	409.6	355.0	385.6	393.1

Operating profit (EBIT) by service line, EUR million

	2018 7–9	2018 4–6	2018 1–3	2017 10–12	2017 7–9	2017 4–6	2017 1–3
Technology Services and Modernization	23.5	20.7	20.7	22.7	23.0	19.1	13.8
Business Consulting and Implementation	1.6	7.1	5.3	4.8	3.6	4.8	2.9
Industry Solutions	15.7	5.0	10.9	22.7	15.8	9.6	6.2
Product Development Services	3.1	2.9	4.3	3.5	2.1	2.3	4.1
Support Functions and Global Management	-3.5	-4.4	-3.8	-5.8	-3.5	-7.6	-5.0
Operating profit (EBIT)	40.4	31.3	37.3	47.9	41.1	28.1	22.0

Operating margin (EBIT) by service line, %

	2018 7–9	2018 4–6	2018 1–3	2017 10–12	2017 7–9	2017 4–6	2017 1–3
Technology Services and Modernization	13.6	11.1	10.9	12.0	13.4	10.3	7.3
Business Consulting and Implementation	3.1	11.0	8.5	9.0	8.4	9.9	5.7
Industry Solutions	14.2	4.2	9.0	17.1	14.1	8.0	5.1
Product Development Services	9.7	8.7	12.7	10.1	7.3	7.3	12.9
Operating margin (EBIT)	11.0	7.7	9.2	11.7	11.6	7.3	5.6

Adjusted operating profit (EBIT) by service line, EUR million

	2018 7–9	2018 4–6	2018 1–3	2017 10–12	2017 7–9	2017 4–6	2017 1–3
Technology Services and Modernization	23.9	22.9	20.8	24.3	23.1	21.6	19.6
Business Consulting and Implementation	1.5	6.3	5.4	4.3	3.5	3.8	4.7
Industry Solutions	15.8	5.9	9.0	20.8	15.8	11.2	9.9
Product Development Services	3.2	2.9	4.3	3.5	2.1	2.5	4.3
Support Functions and Global Management	-2.7	-3.2	-3.0	-3.6	-3.3	-3.6	-2.9
Adjusted operating profit (EBIT)	41.6	34.8	36.6	49.2	41.1	35.5	35.6

Adjusted operating margin (EBIT) by service line, %

	2018 7–9	2018 4–6	2018 1–3	2017 10–12	2017 7–9	2017 4–6	2017 1–3
Technology Services and Modernization	13.8	12.3	11.0	12.8	13.5	11.7	10.4
Business Consulting and Implementation	2.8	9.8	8.7	8.1	8.2	7.7	9.2
Industry Solutions	14.3	4.9	7.5	15.7	14.1	9.4	8.1
Product Development Services	9.9	8.7	12.7	10.1	7.2	8.0	13.4
Adjusted operating margin (EBIT)	11.3	8.6	9.0	12.0	11.6	9.2	9.0

Major shareholders on 30 September 2018

	Shares	%
1 Cevian Capital ¹⁾	11 066 684	14.9
2 Solidium Oy	7 415 418	10.0
3 Silchester International Investors LLP ²⁾	7 401 027	10.0
4 Ilmarinen Mutual Pension Insurance Co.	1 675 415	2.3
5 Swedbank Robur fonder	1 519 864	2.1
6 Elo Pension Co.	810 000	1.1
7 The State Pension fund	773 000	1.0
8 Svenska litteratursällskapet i Finland r.f.	616 345	0.8
9 Åbo Akademi University Foundation	481 800	0.7
10 Nordea Funds	480 534	0.6
Top 10 shareholders total	32 240 087	43.5
- of which nominee registered	20 143 126	27.2
Nominee registered other	27 424 903	37.0
Others	14 444 262	19.5
Total	74 109 252	100.0

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

¹⁾ Based on the ownership records of Euroclear Finland Oy, Cevian Capital's holding on 31 August 2018 was 11 066 684 shares, representing 14.9 % of the shares and voting rights.

²⁾ 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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A **teleconference for analysts and media** will be held on Wednesday 24 October 2018 at **10.00 am EET** (9.00 am CET, 8.00 am UK time). Analysts and media are also welcome to participate in the conference at Tieto's office in Stockholm, address: Fjärde Bassängvägen 15.

Kimmo Alkio, President and CEO, and Janne Salminen, Acting CFO, will present the results online in English. **The presentation** can be followed on **Tieto's website**, for which attendees need Adobe Flash plugin version 10.1.0 or newer. The teleconference details can be found below.

Teleconference numbers

Finland: +358 (0)9 7479 0361

Sweden: +46 (0)8 5033 6574

UK: +44 (0)330 336 9105

US: +1 929 477 0324

Conference code: 4404154

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. The teleconference is recorded and it will be available on demand later during the day.

Tieto publishes its financial information in English and Finnish.

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Headquartered in Finland, Tieto has around 15 000 experts in close to 20 countries. Tieto's turnover is approximately EUR 1.5 billion and shares listed on NASDAQ in Helsinki and Stockholm. www.tieto.com.

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