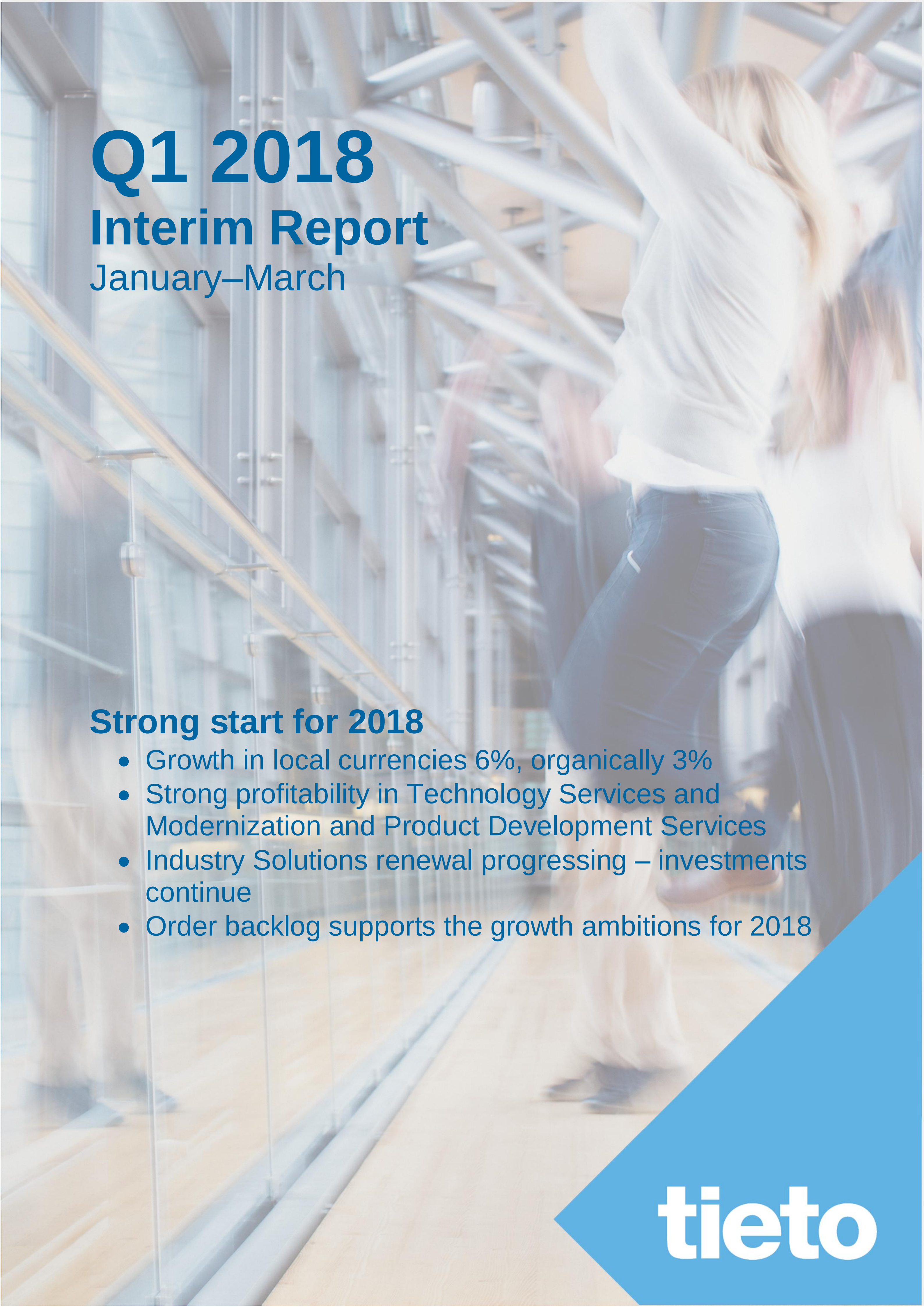

# Q1 2018
## Interim Report
January–March

### Strong start for 2018

- Growth in local currencies 6%, organically 3%
- Strong profitability in Technology Services and Modernization and Product Development Services
- Industry Solutions renewal progressing – investments continue
- Order backlog supports the growth ambitions for 2018

tieto

# Key figures for the first quarter

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

**IT services**
- Sales growth totalled 3.0%, sales in local currencies up by 5.8%
- Adjusted operating profit amounted to EUR 35.2 (34.4) million, 9.5% (9.5) of sales

**The Group**
- Sales growth totalled 3.4%, sales in local currencies up by 6.2%
- Adjusted operating profit amounted to EUR 36.6 (35.6) million, 9.0% (9.0) 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.

| | 1–3/2018 | 1–3/2017 |
|---|---|---|
| Net sales, EUR million | 406.3 | 393.1 |
| Change, % | 3.4 | 7.0 |
| Change in local currencies, % | 6.2 | 6.9 |
| Operating profit (EBITA), EUR million | 41.3 | 25.7 |
| Operating margin (EBITA), % | 10.2 | 6.5 |
| Operating profit (EBIT), EUR million [1] | 37.3 | 22.0 |
| Operating margin (EBIT), % [1] | 9.2 | 5.6 |
| Adjusted [1] [2] operating profit (EBIT), EUR million | 36.6 | 35.6 |
| Adjusted [1] [2] operating margin (EBIT), % | 9.0 | 9.0 |
| Profit after taxes, EUR million | 29.9 | 15.9 |
| EPS, EUR | 0.41 | 0.22 |
| Net cash flow from operations, EUR million | 61.5 | 79.7 |
| Return on equity, 12-month rolling, % | 30.7 | 25.3 |
| Return on capital employed, 12-month rolling, % | 29.2 | 25.8 |
| Capital expenditure, EUR million | 8.2 | 9.3 |
| Acquisitions, EUR million | 9.9 | - |
| Interest-bearing net debt, EUR million | 100.7 | 38.0 |
| Net debt/EBITDA | 0.5 | 0.2 |
| Order backlog | 1 787 | 1 864 |
| Personnel on 31 March | 14 581 | 13 822 |

[1] the first quarter includes EUR 1.3 (1.1) million in amortization of acquisition-related intangible assets
[2] adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items (see page 36)

# Full-year outlook for 2018 unchanged

Tieto expects its adjusted[1] full-year operating profit (EBIT) to increase from the previous year's level (EUR 161.4 million[2] in 2017).

[1] adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items
[2] restated due to the adoption of IFRS 15

# CEO's comment

Comment regarding the interim report by Kimmo Alkio, President and CEO:
"We had a strong start to 2018 with revenue growth exceeding the market and further improvement in operating profit. Our application services and product development services performed particularly well, while exchange rates and the shorter quarter had a negative impact on both the Group's net sales and profitability. We are rapidly moving forward into the digital world for the benefit of our customers. Our recent contract with Kraft Bank in Norway is a good example of a win that enables us to help adopt new technologies – including Artificial Intelligence with built-in machine learning.

Renewal of our key industry solutions is progressing and we will see a number of new-generation software to be released in solutions such as Lifecare, Transaction Banking and SmartUtilities. We expect that the ongoing technology investments will contribute to enhanced future performance in Industry Solutions.

Given the good market demand for digitalization consulting and the design of data-centric services, we aim to accelerate growth in our Business Consulting and Implementation business. Through the acquisition of Avega and the recent integration of business consulting and implementation capabilities, we are well positioned to capture consulting-driven market opportunities.

We aim to be our customers' first choice for business renewal. Our recent acquisitions we have carried out – including Petrostreamz in Norway, which focuses on the oil and gas segment, and the Swedish company NSEC in the security segment – strengthen our capabilities and competitiveness. We will continue to seek opportunities to turn data and new technologies into value for our customers."

# IT market development

- It is anticipated that public cloud adoption increases while the market in total continues to be driven by multicloud strategies integrating private and public clouds.
- While open standards and APIs, including multi-cloud adoption, and agile ways of working provide new data-driven opportunities, talent acquisition is becoming increasingly challenging for any player in the industry.

The total market is expected to remain dynamic and to see further growth. In 2018, the Nordic market is anticipated to grow by 2%. Digitalization of customers' business is accelerating in support of a twofold agenda of growing revenue through innovation and reducing costs by improving efficiency. Customers focus on enhancing digital capabilities, such as analytics, to expand their existing product and service portfolios and improve user experience. At the same time, existing legacy systems are being modernized.

Digital strategies, ecosystem-based solutions and data hub-type industry platforms are generating plenty of interest. Emerging services based on new technologies such as the cloud, software robotics, artificial intelligence and blockchain are expected to experience double-digit growth and the decline in traditional services (traditional application and infrastructure services) will continue. Artificial intelligence and machine learning, for example, help detect patterns in vast volumes of data, and hence provide improved insights. Consequently, enterprises will be able to provide customers with personalized, predictive experiences and increase the automation and accuracy of processes.

Blockchain and distributed ledger technologies enable businesses, public organizations and individuals to form trust relationships and transact over the Internet more efficiently, without involving middlemen. With the newly established Blockchain Solutions business unit, Tieto aims to help organizations in various industries renew their business by providing technology consulting and a variety of services through an extensive ecosystem of partners. In 2018, Tieto signed a contract for the first large proof of concept project with a view to exploring how a limited liability company can be formed fully digitally in a common network shared by banks, public authorities and information brokers.

Outsourcing activity has remained good while the duration and committed values of contracts are decreasing. It is estimated that currently around 20–25% of global infrastructure services are represented by cloud, predominantly private cloud. The total infrastructure cloud (Infrastructure as a Service and Platform as a Service) market is expected to grow by 15–20% annually. This comprises

- public cloud adoption – expected market growth 25–30%
- private/enterprise cloud – expected growth 10–15%.

Future cloud market growth will extensively be driven by multi-cloud solutions integrating public cloud, private cloud and traditional technologies for customers to enable cost-efficient business innovation and agility. Tieto's focus and growth since 2014 have mainly been based on its private cloud offerings. In 2017, Tieto expanded its cloud portfolio to include public cloud services through the launch of OneCloud. OneCloud is a multi-cloud solution seamlessly orchestrating workloads across private and public clouds.

There is an accelerated need for customers to quickly roll out new digital services. The trend involves moving to automated application development and maintenance, as well as adoption of multicloud strategies, requiring strong service orchestration capabilities. In line with these trends, traditional development programmes are cut into smaller projects. The IT industry is also continuing to shift from traditional large outsourcing agreements towards agile methods and consumption-based business models.

Customers' competitive landscape is changing fast with new technology-based companies entering the market, in some cases from outside clients' own industry. This trend, visible across all industries, is calling for an active innovation agenda for current actors to remain competitive. Currently, this has the greatest impact on the financial services and retail sectors.

The new EU General Data Protection Regulation, taking effect in May 2018, has an impact on IT markets and will be high on the management agenda for all customers. Tieto has helped its customers to prepare for the change and continues to see opportunities for its security and application services.

Sweden continues to be the fastest-growing of Tieto's core markets, which is also reflected in active recruitment of IT talent in all industries. In Finland, the economic outlook has improved, and this will gradually also support the IT services market.

## Industry sector drivers

- In the financial services sector, there is a rather high level of activity with several large programmes ongoing, driven by digital transformation and core system renewals. Additionally, compliance with new regulations, open banking digitalization and real-time payments are driving fundamental changes in the sector. The rapid market changes have also affected competence profiles needed in the current environment. High demand for top-notch capability and modern technology calls for a broad range of competences, resulting in temporarily increased inflationary pressures across the Nordic countries. Many new smaller players (Fintech) entering the market continue to challenge both traditional IT service providers and existing vendors in the financial services sector.

- In the public sector, the digitalization of services and processes will continue with efficiency and citizen experience as key drivers. There is healthy demand for consulting services and solutions such as digitalized learning and planning for the education segment and mobile solutions for elderly care. Due to recent security incidents, mainly in Sweden, there is some cautiousness related to outsourcing of IT services, and clients seek to ensure that data is stored and services operated within their jurisdiction. In Finland, Tieto is actively participating in the Government development programme 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 and compensate for the anticipated shortage of care workers. All the Nordic countries are planning highly ambitious large-scale projects to enhance eHealth. The prevailing trend is to move towards integrated healthcare and welfare systems supporting seamless care and the market is expected to provide growth opportunities in the coming years. There are some delays in the renewal of the large-scale Electronic Health Record due to the complexity of these projects and public procurement challenges. In Finland and Sweden, the first regional proposals were submitted during 2017.

- In the manufacturing, forest and paper sector, the strong digitalization trend continues and clients are seeking ways to deploy IoT in production as well as new smart services and products to ensure steady revenues and to improve service experience. At the same time, core process renewals to deploy cloud-enabled ERP solutions are ongoing. In the case of wood and production equipment, there is interest in applying immersive experience tools combined with digital twins of assets, using data from sensors installed to represent their current status. In the paper industry, the need to lower production costs continues to drive the adoption of new digital solutions, such as IoT and Smart Manufacturing.

- 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. They are also continuously standardizing their core processes and integrating data assets in order to increase cost-efficiency and speed up digital initiatives. At the same time, it is anticipated that competition with globally leading companies entering the Nordic countries will remain tough.

- The energy utility market is going through many changes, mainly driven by regulatory requirements, providing interesting opportunities. 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.

- The media sector is continuing its digital transformation. Media companies are searching for new revenue streams and many of them are still carrying costs for huge investments in printing of paper and legacy systems. Customers' competitive landscape with respect to news and advertising is also affected by global actors.

- In the telecom sector, there are new opportunities based on 5G. The technology will enable IoT-based innovations, e.g. for self-driving cars. For consumers, 5G connectivity will enable a variety of new data-driven services. Transformation towards new platforms will continue.

# Strategy implementation

Tieto continues to consistently execute its strategy based on the objectives set for the year. Tieto is seeking to grow faster than the market in the long term. The company aims to accelerate customer value with end-to-end industry solutions and active modernization of customers' technology landscapes. Additionally, data-driven businesses help Tieto and its customers to capture the opportunities provided by the data-driven economy and artificial intelligence.

Industry solutions based on leading industry-specific software products, system integration capabilities and partnerships form the basis for Tieto's differentiation. Tieto drives scale and repeatability through investments in software businesses, including start-ups with strong growth potential.

Tieto is maintaining its investments in offering development at the level of around 5% of sales to ensure its position as customers' first choice for business renewal and help enhance its market position in the Nordic countries. To capture consulting-driven market opportunities as well as to drive customer value and improved utilization rates, Tieto has decided to more tightly integrate the company's business consulting and implementation capabilities.

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. With important launches planned for 2018, investments are anticipated to yield results during the second half of the 2016–2020 strategy period.

Tieto expects that growth will be supported by acquisitions. Avega, acquired in December 2017, and Petrostreamz in the oil and gas segment and NSEC in the security segment, both acquired in 2018, will accelerate growth.

The 2017 automation programme aiming to ensure constant productivity improvement and competitiveness has been thoroughly implemented. Additionally, the company's ambition to reduce sales and administrative costs has progressed, decreasing the share accounted for by these costs from around 15% to 13–14% of sales.

Tieto's good progress has been recognized, which gives a good foundation for 2018. At the beginning of 2018, Thomson Reuters recognized Tieto's continued focus on innovation, good performance and social responsibility, and selected Tieto for its Top 100 Global Tech Leaders list. In 2018, the focus is on growth, customer value, quality, employee experience and profitability.

### Growth businesses

In 2018, Tieto will continue to invest in accelerating growth based on selected high-growth businesses. The focus is on growth in Sweden, proven scalability in Data-Driven Businesses and key launches in Industry Solutions, including Transaction Banking and Hospital Information System solutions.

Growth will be based on a strong solution foundation built on a dynamic portfolio with selected industry solutions and growth services. The company has maintained higher investments mainly in the following growth businesses:

- 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 million[1)])
  - Customer Experience Management (annual sales close to EUR 40 million)
  - Security Services (annual sales EUR 10 million).

In the first quarter, sales of the growth businesses increased by around 9% in local currencies, comprising growth of 5% in the selected industry solutions and 19% in selected growth services.

Customer Experience Management and cloud services were the strongest growing businesses. Customer Experience Management (CEM) posted growth of 12% in local currencies. There is an increasing need for partners that can support customers with holistic agile transformations. The focus has been on the development of a next-generation customer experience solution built on new microservices architecture combining business knowledge, design, software development and rapid deployment. Cloud services posted growth of 23% in local currencies [1)]. There is strong interest in migrating from current environments to Tieto's OneCloud solution. The solution, launched in early 2017, is a dynamic solution that enables customers to efficiently manage multiple cloud services through one platform.

Security Services has continued to enhance its portfolio by starting a consulting practice and with service portfolio additions. First-quarter sales in local currencies were down by 2%. In Finland, sales were affected by lower project volumes. There is good momentum in the Swedish market and new business is generated by the requirements related to the General Data Protection Regulation. Investments have been stepped up in Data-Driven Businesses, e.g. in Artificial Intelligence-related capabilities. The focus has been on driving scale for solutions, such as Intelligent Wellbeing and Empathic Building. Tieto is also implementing Digital Data PaaS (Platform as a Service) solutions for customers in a number of industries and the good momentum is expected to continue.

[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.

### 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 the consulting-driven Swedish market, Tieto completed the acquisition of Avega Group AB in December 2017 and this will also affect sales in 2018. Avega's annual sales amount to around EUR 45 million, of which around EUR 4 million was recognized in 2017. Additionally, the acquisitions of Petrostreamz (acquired in February) and NSEC (acquired in April) with aggregated annual sales of EUR 6 million were concluded in 2018. On the other hand, Tieto divested its ProArc unit, previously part of Software Innovation. The unit is focused mainly on the oil and gas segment and annual sales of the disposed business were around EUR 7 million.

IT services' performance drivers also include

- solution launches contributing to growth
- offering development
- recruitments in new service areas and related competence development
- automation and industrialization in service deliveries
- salary inflation.

The company will continue to renew and strengthen its service and solution portfolio with a special focus on selected industry solutions driving growth. Offering development costs at the Group level in 2018 are anticipated to remain at the 2017 level of close to 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 have been completed. The company expects that the actions will result in gross savings of around EUR 20 million in 2018. In the first quarter, the savings amounted to around EUR 10 million. Around half of the total redundancies affect the Technology Services and Modernization service line. Tieto recruited around 250 new employees in the first quarter, mainly in new competence areas.

Tieto currently estimates that its full-year restructuring costs in 2018 will represent 1–2% of Group sales. Overall, Tieto's restructuring needs will be based on automation, other productivity improvements and the need to align the company's competence base with market demand.

Salary inflation is anticipated to amount to close to EUR 30 million in 2018.

At the annual level, Tieto anticipates positive growth and profitability development to continue while financial development is anticipated to experience a degree of quarterly variations during the year. Currency changes are anticipated to be negative for the full year. Based on March-average rates, the impact on full-year net sales is close to EUR 37 million and on profit around EUR 8 million. The market for Industry Solutions is expected to remain good, especially in the financial services and healthcare and welfare segments, and Tieto's product launches during the year are anticipated to accelerate growth towards the end of 2018.

The second-quarter performance will be affected by negative currency effects, at the current rates exceeding the positive working day impact. The second quarter includes one more working day compared with the previous year's corresponding quarter. Additionally, the contribution of the efficiency programme started in 2017 will diminish.

# Financial performance in January–March

First-quarter net sales increased by 3.4% to EUR 406.3 (393.1) million, growth of 6.2% in local currencies. In IT services, net sales were up by 3.0%, in local currencies up by 5.8%. In Product Development Services, sales in local currencies increased by 11.3%. Acquisitions added EUR 13 million in sales, mainly affecting Business Consulting and Implementation. Currency fluctuations had a negative impact of EUR 11 million on sales, mainly due to the weaker Swedish Krona. Additionally, the number of working days had a negative impact on growth. The first quarter included one less working day compared with the previous year's corresponding quarter.

First-quarter operating profit (EBIT) amounted to EUR 37.3 (22.0) million, representing a margin of 9.2% (5.6). Adjusted[1)] operating profit stood at EUR 36.6 (35.6) million, or 9.0% (9.0) of net sales. Further details on first-quarter adjustments are available in a table on page 36.

Profitability was affected by salary inflation. Additionally, currency changes had a negative impact of around EUR 2 million on operating profit. The efficiency improvement programme had a positive impact of around EUR 10 million on the cost base during the quarter. Offering development costs were at the previous year's level.

Depreciation and amortization amounted to EUR 13.8 (13.7) million, including EUR 1.3 (1.1) million in amortization of acquisition-related intangible assets. Net financial expenses stood at EUR 0.7 (1.0) million in the first quarter. Net interest expenses were EUR 0.4 (0.5) million and net losses from foreign exchange transactions EUR 0.1 (0.2) million. Other financial income and expenses amounted to EUR -0.1 (-0.3) million.

Earnings per share (EPS) totalled EUR 0.41 (0.22). Adjusted[1)] earnings per share amounted to EUR 0.40 (0.36).

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

# Financial performance by service line

| EUR million | Customer sales 1–3/2018 | Customer sales 1–3/2017 | Change, % | Operating profit 1–3/2018 | Operating profit 1–3/2017 |
|---|---|---|---|---|---|
| Technology Services and Modernization | 198.8 | 197.7 | 1 | 22.9 | 14.6 |
| Business Consulting and Implementation | 50.2 | 39.3 | 28 | 2.7 | 2.2 |
| Industry Solutions | 123.2 | 124.5 | -1 | 11.2 | 6.3 |
| Product Development Services | 34.1 | 31.9 | 7 | 4.3 | 4.2 |
| Support Functions and Global Management | - | - | | -3.8 | -5.3 |
| **Total** | **406.3** | **393.1** | **3** | **37.3** | **22.0** |

# Operating margin by service line

| % | Operating margin 1–3/2018 | Operating margin 1–3/2017 | Adjusted[1)] operating margin 1–3/2018 | Adjusted[1)] operating margin 1–3/2017 |
|---|---|---|---|---|
| Technology Services and Modernization | 11.5 | 7.4 | 11.6 | 10.9 |
| Business Consulting and Implementation | 5.3 | 5.7 | 5.5 | 7.1 |
| Industry Solutions | 9.1 | 5.0 | 7.6 | 8.0 |
| Product Development Services | 12.6 | 13.1 | 12.7 | 13.6 |
| **Total** | **9.2** | **5.6** | **9.0** | **9.0** |

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

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 3%. Growth in local currencies was driven by infrastructure cloud[1)], up by 23%, and application services, up by 8%. In line with the market, the decline in traditional infrastructure services continued and sales in this area were down by 6% in local currencies. Operating margin improved due to continued service standardization as well as strong add-on sales during the quarter. Second-quarter profitability is anticipated to be close to the level of the previous year's corresponding quarter.

In Business Consulting and Implementation, sales growth was attributable to the acquisition of Avega. Good growth in Customer Experience Management continued. Adjusted operating profit remained at the previous year's level as the lower number of working days and currency changes impacted both organic growth and profitability. Second-quarter adjusted operating margin is expected to improve from the previous year's corresponding quarter, partly due to the higher number of working days.

In Industry Solutions, sales in local currencies were up by 3%. Growth remained good in the SmartUtilities, Production Excellence and Case Management solutions while sales for Tieto's Payments solution were lower as Tieto is preparing for a new product launch in this area. Lifecare sales growth was slightly above the market. Technology renewal and business change towards consumption-based model continue in a number of key solutions. Adjusted operating profit was affected by an increase of EUR 1 million in offering development, transitions related to solution renewals and negative currency effects. Second-quarter adjusted operating margin is expected to remain close to the previous year's level.

In Product Development Services, sales growth in local currencies remained strong at 11%. Growth was attributable to strong volume development with the largest key customers and good development in the automotive segment. While profitability was affected by the negative working day impact, operating margin remained strong. Second-quarter adjusted operating margin is anticipated to be at the level of previous year's corresponding quarter.

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 1–3/2018 | Customer sales 1–3/2017 | Change, % |
|---|---|---|---|
| Financial Services | 96.4 | 96.0 | 0 |
| Public, Healthcare and Welfare | 132.8 | 127.6 | 4 |
| Industrial and Consumer Services | 142.9 | 138.0 | 4 |
| **IT services** | **372.1** | **361.6** | **3** |
| Product Development Services | 34.1 | 32.0 | 7 |
| **Total** | **406.3** | **393.1** | **3** |

In Financial Services, sales in local currencies were up by 3%. Positive development was attributable to good development in Technology Services and Modernization, especially in cloud-based platform services, volume growth and new agreements in application services. In the Transaction Banking area, Tieto's transition to a new product family will open new opportunities.

In Public, Healthcare and Welfare, sales in local currencies were up by 7%. Development was strongest in Technology Services and Modernization, driven by cloud, end-user and application services. In Industry Solutions, both Finland and Sweden posted growth while sales were affected by delays in some large-scale renewal projects. Overall, the market is active with several digitalization initiatives and transition projects ongoing.

In Industrial and Consumer Services, growth was supported by the acquisition of Avega and good development in the energy segment in Sweden. Tieto posted good growth especially in SmartUtilities and Production Excellence solutions. The industry group concluded several agreements across industries during the quarter.

# M&A impact in January–March

In IT services, first-quarter organic growth in local currencies was 2%. At the Group level, first-quarter sales in local currencies were organically up by 3%. Acquisitions added EUR 13 million in sales, mainly affecting Business Consulting and Implementation.

## M&A impact by service line

| | Growth, % (in local currencies) 1–3/2018 | Organic growth, % (in local currencies) 1–3/2018 |
|---|---|---|
| Technology Services and Modernization | 3 | 3 |
| Business Consulting and Implementation | 31 | -3 |
| Industry Solutions | 3 | 4 |
| **IT services** | **6** | **2** |
| Product Development Services | 11 | 11 |
| **Total** | **6** | **3** |

## M&A impact by industry group

| | Growth, % (in local currencies) 1–3/2018 | Organic growth, % (in local currencies) 1–3/2018 |
|---|---|---|
| Financial Services | 3 | 1 |
| Public, Healthcare and Welfare | 7 | 5 |
| Industrial and Consumer Services | 6 | 0 |
| **IT services** | **6** | **2** |
| Product Development Services | 11 | 11 |
| **Total** | **6** | **3** |

# Cash flow, financing and investments

First-quarter net cash flow from operations amounted to EUR 61.5 (79.7) million, including the decrease of EUR 18.0 (47.1) million in net working capital. Payments for restructuring amounted to EUR 2.3 (4.7) million.

First-quarter tax payments were EUR 6.9 (6.4) million.

First-quarter capital expenditure totalled EUR 8.2 (9.3) million, of which paid EUR 8.2 (9.3) million. Capital expenditure represented 2.0% (2.4) of net sales and was mainly related to data centres. Net payments for acquisitions totalled EUR 6.2 (0.4) million.

The equity ratio was 36.3% (39.2). Gearing increased to 25.8% (9.5). Interest-bearing net debt totalled EUR 100.7 (38.0) million, including EUR 155.2 (115.5) million in interest-bearing debt, EUR 2.3 (5.2) million in finance lease liabilities, EUR 2.2 (5.1) million in finance lease receivables, EUR 0.7 (0.7) million in other interest-bearing receivables and EUR 53.9 (76.9) million in cash and cash equivalents.

The EUR 100 million bond matures in May 2019 and it carries a coupon of fixed annual interest of 2.875%. Interest-bearing long-term loans amounted to EUR 101.7 million at the end of March. Interest-bearing short-term loans amounted to EUR 55.7 million, mainly related to commercial paper issues and joint venture cash pool balances. The syndicated revolving credit facility of EUR 150 million maturing in May 2021 was not in use at the end of March. The EUR 85 million financing agreement, concluded with the European Investment Bank in June 2017, was not utilized at the end of March. The agreement is a committed credit facility where Tieto has a possibility to withdraw funding for up to nine years.

# Order backlog

The IT industry is continuing to shift from traditional large outsourcing agreements towards agile methods and consumption-based business models. Traditional development programmes are cut into smaller projects. These emerging trends reduce binding durations and values in new contracts while frame agreements yield revenue opportunities. These trends are also impacting the significance of traditional measures for order backlog.

The order backlog was impacted by a negative currency effect and amounted to EUR 1 787 (1 864) million. Of the backlog, 45% (43) is expected to be invoiced during 2018, representing revenue value of EUR 810 (796) million for 2018, up by 2%.

Order backlog includes all signed customer orders that have not been recognized as revenue, including the estimates of the value of consumption-based contracts.

# Major agreements in January–March

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 Osuuskauppojen 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.

# Business transactions in January–March

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, a rapidly growing provider of advanced software and services for integrated asset modeling (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.

# Personnel

The number of full-time employees amounted to 14 581 (13 822) at the end of March. The number of full-time employees in the global delivery centres totalled 7 208 (6 722), or 49.4% (48.6) of all personnel.

In the first quarter, the number of full-time employees was up by a net amount of around 250. The net impact of acquisitions and outsourcing agreements was not significant.

The 12-month rolling employee turnover stood at 11.7% (10.7) at the end of March.

Salary inflation is somewhat on the rise, especially in Sweden. In offshore countries, salary inflation is clearly above the average. 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.

# Annual General Meeting

Tieto's Annual General Meeting held on 22 March approved the financial statements for 2017, decided to distribute a dividend of EUR 1.20 per share and an additional dividend of EUR 0.20 as well as to discharge the company's officers from liability for the financial year 2017.

The meeting decided that the Board of Directors shall consist of seven members and re-elected the Board's current members Kurt Jofs, Harri-Pekka Kaukonen, Timo Ahopelto, Johanna Lamminen, Endre Rangnes and Jonas Synnergren. Liselotte Hägertz Engstam was elected as a new member. Kurt Jofs was re-elected as the Chairman of the Board of Directors. The meeting also re-elected the firm of authorized public accountants PricewaterhouseCoopers Oy as the company's auditor for the financial year 2018.

# Management

To capture consulting-driven market opportunities as well as to further drive customer value and improved utilization rates, Tieto has decided to more tightly integrate the company’s business consulting and implementation capabilities. Ari Järvelä has been appointed as Head of Business Consulting and Implementation service line as from 1 April. He will continue in his current role as head of Data-Driven Businesses and as a member of Tieto’s Leadership Team.

Lasse Heinonen, Chief Financial Officer (CFO), has decided to pursue a new opportunity outside Tieto in another industry, and will be leaving the company by 1 August 2018.

Tieto has appointed Markus Suomi (MSc, Software Engineering and Industrial Economics) as Chief Technology Officer (CTO) and a member of the company’s Leadership Team as of 1 April. Suomi will drive collaboration and co-innovation with global technology partners as well as fast adoption of the latest technologies for the benefit of Tieto and its Nordic customers.

# Operating structure

Tieto will implement internal business transfers from Technology Services and Modernization to Business Consulting and Implementation. The transfers, including enterprise application-related business for cloud-born applications, integration consulting and Value Networks as a related solution, have taken effect on 1 April. Annual sales of the transferred businesses amount to close to EUR 40 million. Comparison figures for 2017 will be provided before the end of the second quarter of 2018.

# Shares

The number of Tieto shares amounted to 74 109 252 at the end of March.

During March, a total of 103 224 Tieto’s treasury shares were transferred as part of the allocations related to the company’s share-based reward plans. After the transfer of the shares, 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-impact.

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 30% 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 will take effect in May 2018. Tieto is well preparad for the new regulation although there is increased uncertainty with regards to authority intepretiation of the regulation. As many customers continue to prepare for the regulation changes, there continues to be opportunities for Tieto 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.

# Events after the period

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 AB 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.

# Full-year outlook for 2018 unchanged

Tieto expects its adjusted[1)] full-year operating profit (EBIT) to increase from the previous year's level (EUR 161.4 million [2)] in 2017).

[1)] adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items
[2)] restated due to the adoption of IFRS 15

# Financial calendar 2018

Tieto will publish three interim reports:

| | |
|---|---|
| 26 April | Interim report 1/2018 (8.00 am EET) |
| 20 July | Interim report 2/2018 (8.00 am EET) |
| 24 October | Interim report 3/2018 (8.00 am EET) |
| 29 November | Capital Market Day |

# Condensed financial statements

Figures for 2017 in these condensed financial statements have been restated due to the adoption of IFRS 15.

## Income statement, EUR million

| | 2018 1–3 | 2017 1–3 | Change % | 2017 1–12 |
|---|---|---|---|---|
| Net sales | 406.3 | 393.1 | 3 | 1 543.4 |
| Other operating income | 7.2 | 3.1 | 132 | 17.4 |
| Employee benefit expenses | -234.2 | -239.7 | -2 | -873.3 |
| Depreciation, amortization and impairment losses | -13.8 | -13.7 | 0 | -54.7 |
| Other operating expenses | -129.3 | -121.5 | 6 | -496.9 |
| Share of results in joint ventures | 1.0 | 0.7 | 41 | 3.2 |
| Operating profit (EBIT) | 37.3 | 22.0 | 70 | 139.1 |
| Interest and other financial income | 0.5 | 0.4 | 46 | 1.5 |
| Interest and other financial expenses | -1.1 | -1.2 | 3 | -4.7 |
| Net foreign exchange gains/losses | -0.1 | -0.2 | -72 | -0.2 |
| Profit before taxes | **36.7** | **21.0** | **74** | **135.7** |
| Income taxes | -6.8 | -5.2 | 30 | -28.0 |
| **Net profit for the period** | **29.9** | **15.9** | **89** | **107.7** |
| | | | | |
| **Net profit for the period attributable to** | | | | |
| Shareholders of the Parent company | 29.9 | 15.9 | 89 | 107.7 |
| Non-controlling interest | 0.0 | - | 100 | 0,0 |
| | **29.9** | **15.9** | **89** | **107.7** |
| | | | | |
| **Earnings per share attributable to the shareholders of the Parent company, EUR** | | | | |
| Basic and diluted | 0.41 | 0.22 | 86 | 1.46 |

## Statement of comprehensive income, EUR million

| | 2018 1–3 | 2017 1–3 | Change % | 2017 1–12 |
|---|---|---|---|---|
| Net profit for the period | 29.9 | 15.9 | 89 | 107.7 |
| Items that may be reclassified subsequently to profit or loss | | | | |
| Translation differences | -13.1 | 0.5 | > -100 | -19.0 |
| Items that will not be reclassified subsequently to profit or loss | | | | |
| Remeasurements of the defined benefit pension obligations, net of tax | 2.1 | -2.6 | -181 | -2.4 |
| **Total comprehensive income** | **18.9** | **13.8** | **37** | **86.3** |
| | | | | |
| **Total comprehensive income attributable to** | | | | |
| Shareholders of the Parent company | 18.9 | 13.8 | 37 | 86.3 |
| Non-controlling interest | 0.0 | - | 100 | 0.0 |
| | **18.9** | **13.8** | **37** | **86.3** |

# Statement of financial position, EUR million

| | 2018 31 Mar | 2017 31 Mar | Change % | 2017 31 Dec |
|---|---|---|---|---|
| Goodwill | 437.4 | 409.5 | 7 | 441.3 |
| Other intangible assets | 46.1 | 47.3 | -3 | 51.1 |
| Property, plant and equipment | 92.2 | 94.1 | -2 | 94.9 |
| Interests in joint ventures | 14.2 | 13.8 | 3 | 16.3 |
| Deferred tax assets | 26.6 | 29.4 | -10 | 25.7 |
| Finance lease receivables | 0.7 | 1.6 | -58 | 0.8 |
| Other financial assets at amortized cost | 0.7 | 0.5 | 49 | 0.4 |
| Other financial assets at fair value through profit or loss | 0.5 | 0.7 | -19 | 0.5 |
| Total non-current assets | 618.4 | 596.9 | 4 | 631.0 |
| | | | | |
| Trade and other receivables | 440.7 | 396.9 | 11 | 422.5 |
| Pension benefit assets | 7.0 | 5.3 | 32 | 7.4 |
| Finance lease receivables | 1.5 | 3.5 | -57 | 2.0 |
| Other interest-bearing receivables | - | 0.2 | -100 | 0.0 |
| Current income tax receivables | 10.5 | 13.7 | -23 | 8.7 |
| Cash and cash equivalents | 53.9 | 76.9 | -30 | 78.2 |
| Total current assets | 513.7 | 496.5 | 3 | 518.8 |
| | | | | |
| **Total assets** | **1 132.1** | **1 093.5** | **4** | **1 149.9** |
| | | | | |
| Share capital, share issue premiums and other reserves | 117.9 | 120.1 | -2 | 119.2 |
| Retained earnings | 272.8 | 281.8 | -3 | 356.6 |
| Parent shareholders' equity | 390.7 | 401.9 | -3 | 475.8 |
| Non-controlling interest | 0.0 | - | - | 0.4 |
| Total equity | 390.7 | 401.9 | -3 | 476.1 |
| | | | | |
| Loans | 101.7 | 104.0 | -2 | 102.5 |
| Deferred tax liabilities | 37.6 | 34.1 | 11 | 38.5 |
| Provisions | 2.5 | 5.8 | -57 | 2.6 |
| Pension obligations | 9.7 | 14.8 | -34 | 11.9 |
| Other non-current liabilities | 5.2 | 1.8 | - | 4.5 |
| Total non-current liabilities | 156.8 | 160.5 | -2 | 160.0 |
| | | | | |
| Trade and other payables | 512.9 | 491.5 | 4 | 362.9 |
| Current income tax liabilities | 8.2 | 4.6 | 79 | 5.9 |
| Provisions | 7.8 | 18.3 | -58 | 10.3 |
| Loans | 55.7 | 16.7 | 234 | 134.6 |
| Total current liabilities | 584.6 | 531.1 | 10 | 513.7 |
| | | | | |
| **Total equity and liabilities** | **1 132.1** | **1 093.5** | **4** | **1 149.9** |

# Statement of changes in shareholders' equity, EUR million

| | Share capital | Share premium and other reserves | Own shares | Translation differences | Invested unrestricted equity reserve | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | **Parent shareholders' equity** | | | | | | | | |
| **At 31 Dec 2017** | **76.6** | **42.6** | **-11.6** | **-78.5** | **12.8** | **433.3** | **475.2** | **0.4** | **475.6** |
| Adustment on initial application of IFRS 15 and IFRS 9, net of tax | | | | | | 0.2 | 0.2 | | 0.2 |
| Adustment on initial application of IFRS 2 amendment | | | | | | 4.0 | 4.0 | | 4.0 |
| Other adjustment | | | 3.9 | | | -3.9 | | | |
| **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 | | | | | | 29.9 | 29.9 | 0.0 | 29.9 |
| **Other comprehensive income, net of tax** | | | | | | | | | |
| Remeasurements of the defined benefit pension obligations, net of tax | | | | | | 2.1 | 2.1 | | 2.1 |
| Translation differences | | -1.2 | | -12.7 | | 0.8 | -13.1 | | -13.1 |
| **Total comprehensive income** | | **-1.2** | | **-12.7** | | **32.8** | **18.9** | **0.0** | **18.9** |
| **Transactions with owners** | | | | | | | | | |
| **Contributions and distributions** | | | | | | | | | |
| Share-based payments | | | 2.6 | | | -4.3 | -1.7 | | -1.7 |
| Dividends | | | | | | -103.4 | -103.4 | | -103.4 |
| **Changes in ownership interests** | | | | | | | | | |
| Acquisition of NCI without change in control | | | | | | -2.6 | -2.6 | -0.3 | -2.9 |
| **Total transactions with owners** | | | **2.6** | | | **-110.2** | **-107.6** | **-0.3** | **-107.9** |
| **At 31 Mar 2018** | **76.6** | **41.4** | **-5.1** | **-91.2** | **12.8** | **356.2** | **390.7** | **0.0** | **390.7** |

| | Parent shareholders' equity | | | | | | | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium and other reserves | Own shares | Translation differences | Invested unrestricted equity reserve | Retained earnings | Total | | |
| **At 31 Dec 2016** | **76.6** | **43.4** | **-11.6** | **-52.3** | **12.8** | **419.2** | **488.1** | **-** | **488.1** |
| **Comprehensive income** | | | | | | | | | |
| Net profit for the period | | | | | | 15.7 | 15.7 | | 15.7 |
| **Other comprehensive income, net of tax** | | | | | | | | | |
| Remeasurements of the defined benefit pension obligations | | | | | | -2.6 | -2.6 | | -2.6 |
| Translation differences | | 0.1 | | 0.0 | | 0.4 | 0.5 | | 0.5 |
| **Total comprehensive income** | | **0.1** | | **0.0** | | **13.5** | **13.6** | | **13.6** |
| **Transactions with owners** | | | | | | | | | |
| **Contributions and distributions** | | | | | | | | | |
| Share-based payments | | | | | | 0.4 | 0.4 | | 0.4 |
| Dividends | | | | | | -101.0 | -101.0 | | -101.0 |
| **Total transactions with owners** | | | | | | **-100.6** | **-100.6** | | **-100.6** |
| **At 31 Mar 2017** | **76.6** | **43.5** | **-11.6** | **-52.3** | **12.8** | **332.1** | **401.1** | **-** | **401.1** |

# Statement of cash flows, EUR million

| | 2018 1-3 | 2017 1–3 | 2017 1–12 |
|---|---|---|---|
| **Cash flow from operations** | | | |
| Net profit | 29.9 | 15.9 | 107.7 |
| Adjustments | | | |
| Depreciation, amortization and impairment losses | 13.8 | 13.7 | 54.7 |
| Profit/loss on sale of fixed assets, shares and business operations | -3.2 | 0.0 | 0.0 |
| Share of results in joint ventures | -1.0 | -0.7 | -3.2 |
| Other adjustments | 2.6 | -0.1 | -3.5 |
| Net financial expenses | 0.7 | 1.0 | 3.4 |
| Income taxes | 6.8 | 5.2 | 28.0 |
| Change in net working capital | 18.0 | 47.1 | -15.3 |
| **Cash generated from operations** | 67.5 | 82.0 | 171.8 |
| Net financial expenses paid | -2.3 | 0.6 | -7.4 |
| Dividends received | 3.2 | 3.5 | 3.5 |
| Income taxes paid | -6.9 | -6.4 | -16.9 |
| **Net cash flow from operations** | **61.5** | **79.7** | **151.0** |
| | | | |
| **Cash flow from investing activities** | | | |
| Acquisition of Group companies and business operations, net of cash acquired | -6.2 | -0.4 | -43.7 |
| Capital expenditures | -8.2 | -9.3 | -47.0 |
| Disposal of Group companies and business operations, net of cash disposed | 6.1 | - | -0.3 |
| Sales of fixed assets | 0.0 | 0.0 | 0.4 |
| Change in loan receivables | 0.6 | 0.1 | 2.7 |
| **Net cash used in investing activities** | **-7.6** | **-9.6** | **-87.9** |
| | | | |
| **Cash flow from financing activities** | | | |
| Dividends paid | - | - | -101.0 |
| Payments of finance lease liabilities | -0.2 | -0.3 | -1.0 |
| Change in interest-bearing liabilities | -80.8 | -51.4 | 61.8 |
| **Net cash used in financing activities** | **-81.0** | **-51.7** | **-40.2** |
| | | | |
| **Change in cash and cash equivalents** | **-27.1** | **18.4** | **22.9** |
| | | | |
| Cash and cash equivalents at the beginning of period | 78.2 | 56.7 | 56.7 |
| Foreign exchange differences | 2.8 | 1.8 | -1.4 |
| Change in cash and cash equivalents | -27.1 | 18.4 | 22.9 |
| **Cash and cash equivalents at the end of period** | **53.9** | **76.9** | **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.

## New and amended standards adopted as of 1 January 2018

### IFRS 15 'Revenue from Contracts with Customers'

Starting from 1 January 2018, the Group applies 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 is 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 balance as of 31 March 2018).

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, 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 Dec 2017 or 31 Mar 2018, and therefore there was no impact upon transition. Similarly, the new rules introduced by IFRS 9 had no impact on the Q1 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.

### 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 1–3 | 2017 1–3 | Change % | 2017 1–12 |
|---|---|---|---|---|
| Technology Services and Modernization | 198.8 | 197.7 | 1 | 771.1 |
| Business Consulting and Implementation | 50.2 | 39.3 | 28 | 150.3 |
| Industry Solutions | 123.2 | 124.5 | -1 | 496.2 |
| Product Development Services | 34.1 | 31.9 | 7 | 126.6 |
| **Group total** | **406.3** | **393.1** | **3** | **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 1–3 | 2017 1–3 | Change % | Share % | 2017 1–12 | Share % |
|---|---|---|---|---|---|---|
| Finland | 176.6 | 173.3 | 2 | 43 | 675.9 | 44 |
| Sweden | 164.6 | 150.8 | 9 | 41 | 599.0 | 39 |
| Norway | 37.2 | 43.7 | -15 | 9 | 161.2 | 10 |
| Other | 28.0 | 25.3 | 10 | 7 | 107.4 | 7 |
| **Group total** | **406.3** | **393.1** | **3** | **100** | **1 543.4** | **100** |

In Finland, IT services sales increased with 2.1% during the first quarter.

In Sweden, growth in local currencies was 14.5% during the first quarter. IT services grew in local currencies by 16.0% during the first quarter.

In Norway, sales decreased in local currencies with 8.8% during the first quarter.

**Customer sales by industry group, EUR million**

| | 2018 1–3 | 2017 1–3 | Change % | 2017 1–12 |
|---|---|---|---|---|
| Financial Services | 96.4 | 96.0 | 0 | 384.7 |
| Public, Healthcare and Welfare | 132.8 | 127.6 | 4 | 502.0 |
| Industrial and Consumer Services | 142.9 | 138.0 | 4 | 531.5 |
| Product Development Services | 34.1 | 32.0 | 7 | 126.6 |
| **Group total** | **406.3** | **393.1** | **3** | **1 543.4** |

Customer sales to the telecom sector were EUR 61 (61) million during January–March.

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

**Customer sales by service line disaggregated by contract type, EUR million**

| | 1–3 | | |
|---|---|---|---|
| **2018** | **Fixed price projects** | **Other sales** | **Customer sales total** |
| Technology Services and Modernization | 32.1 | 166.7 | 198.8 |
| Business Consulting and Implementation | 13.6 | 36.6 | 50.2 |
| Industry Solutions | 30.8 | 92.4 | 123.2 |
| Product Development Services | 9.5 | 24.6 | 34.1 |
| **Group total** | **86.0** | **320.3** | **406.3** |

| | 1–3 | | | 1–12 | | |
|---|---|---|---|---|---|---|
| **2017** | **Fixed price projects** | **Other sales** | **Customer sales total** | **Fixed price projects** | **Other sales** | **Customer sales total** |
| Technology Services and Modernization | 37.8 | 159.9 | 197.7 | 140.0 | 631.1 | 771.1 |
| Business Consulting and Implementation | 15.5 | 23.8 | 39.3 | 58.0 | 92.3 | 150.3 |
| Industry Solutions | 34.0 | 90.6 | 124.5 | 141.8 | 354.4 | 496.2 |
| Product Development Services | 11.9 | 20.0 | 31.9 | 41.3 | 85.3 | 126.6 |
| **Group total** | **99.1** | **293.9** | **393.1** | **381.1** | **1 162.2** | **1 543.4** |

### Operating profit (EBIT) by service line, EUR million

| | 2018 1–3 | 2017 1–3 | Change % | 2017 1–12 |
|---|---|---|---|---|
| Technology Services and Modernization | 22.9 | 14.6 | 57 | 84.7 |
| Business Consulting and Implementation | 2.7 | 2.2 | 19 | 8.0 |
| Industry Solutions | 11.2 | 6.3 | 79 | 55.4 |
| Product Development Services | 4.3 | 4.2 | 3 | 12.3 |
| Support Functions and Global Management | -3.8 | -5.3 | 28 | -21.2 |
| **Operating profit (EBIT)** | **37.3** | **22.0** | **70** | **139.1** |

### Operating margin (EBIT) by service line, %

| | 2018 1–3 | 2017 1–3 | Change pp | 2017 1–12 |
|---|---|---|---|---|
| Technology Services and Modernization | 11.5 | 7.4 | 4 | 11.0 |
| Business Consulting and Implementation | 5.3 | 5.7 | 0 | 5.3 |
| Industry Solutions | 9.1 | 5.0 | 4 | 11.2 |
| Product Development Services | 12.6 | 13.1 | 0 | 9.7 |
| **Operating margin (EBIT)** | **9.2** | **5.6** | **4** | **9.0** |

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

| | 2018 1–3 | 2017 1–3 | Change % | 2017 1–12 |
|---|---|---|---|---|
| Technology Services and Modernization | 23.1 | 21.6 | 7 | 95.8 |
| Business Consulting and Implementation | 2.8 | 2.8 | 0 | 7.2 |
| Industry Solutions | 9.4 | 9.9 | -6 | 58.7 |
| Product Development Services | 4.3 | 4.3 | 0 | 12.6 |
| Support Functions and Global Management | -3.0 | -3.1 | 5 | -12.8 |
| **Adjusted operating profit (EBIT)** | **36.6** | **35.6** | **3** | **161.4** |

### Adjusted operating margin (EBIT) by service line, %

| | 2018 1–3 | 2017 1–3 | Change pp | 2017 1–12 |
|---|---|---|---|---|
| Technology Services and Modernization | 11.6 | 10.9 | 1 | 12.4 |
| Business Consulting and Implementation | 5.5 | 7.1 | -2 | 4.8 |
| Industry Solutions | 7.6 | 8.0 | 0 | 11.8 |
| Product Development Services | 12.7 | 13.6 | -1 | 10.0 |
| **Adjusted operating margin (EBIT)** | **9.0** | **9.0** | **0** | **10.5** |

### Personnel by service line

| | End of period | | | | | Average | |
|---|---|---|---|---|---|---|---|
| | 2018 1–3 | Change % | Share % | 2017 1–3 | 2017 1–12 | 2018 1–3 | 2017 1–3 |
| Technology Services and Modernization | 6 185 | 0 | 42 | 6 208 | 6 108 | 6 156 | 6 259 |
| Business Consulting and Implementation | 1 756 | 25 | 12 | 1 402 | 1 728 | 1 750 | 1 419 |
| Industry Solutions | 4 160 | 4 | 29 | 4 009 | 4 070 | 4 144 | 4 031 |
| Product Development Services | 1 530 | 15 | 10 | 1 328 | 1 532 | 1 521 | 1 299 |
| **Service lines total** | **13 632** | **5** | **93** | **12 948** | **13 438** | **13 571** | **13 008** |
| Industry groups | 331 | 31 | 2 | 253 | 279 | 330 | 259 |
| Support Functions and Global Management | 618 | -1 | 4 | 622 | 612 | 621 | 631 |
| **Group total** | **14 581** | **5** | **100** | **13 822** | **14 329** | **14 522** | **13 899** |

### Personnel by country

| | End of period | | | | | Average | |
|---|---|---|---|---|---|---|---|
| | 2018 1–3 | Change % | Share % | 2017 1–3 | 2017 1–12 | 2018 1–3 | 2017 1–3 |
| Finland | 3 360 | -3 | 23 | 3 447 | 3 364 | 3 370 | 3 503 |
| Sweden | 3 050 | 14 | 21 | 2 682 | 3 036 | 3 056 | 2 720 |
| India | 2 670 | 7 | 18 | 2 492 | 2 571 | 2 638 | 2 501 |
| Czech Republic | 2 329 | 3 | 16 | 2 257 | 2 254 | 2 306 | 2 257 |
| Latvia | 604 | -5 | 4 | 633 | 612 | 610 | 638 |
| Norway | 599 | -4 | 4 | 622 | 600 | 597 | 626 |
| Poland | 575 | 29 | 4 | 445 | 538 | 561 | 430 |
| China | 462 | 36 | 3 | 340 | 460 | 458 | 327 |
| Estonia | 279 | -7 | 2 | 299 | 274 | 280 | 297 |
| Austria | 141 | 2 | 1 | 138 | 134 | 139 | 136 |
| Lithuania | 110 | 15 | 1 | 95 | 106 | 109 | 97 |
| Other | 403 | 8 | 3 | 372 | 381 | 398 | 366 |
| **Group total** | **14 581** | **5** | **100** | **13 822** | **14 329** | **14 522** | **13 899** |
| Onshore countries | 7 373 | 4 | 51 | 7 101 | 7 350 | 7 386 | 7 197 |
| Offshore countries | 7 209 | 7 | 49 | 6 722 | 6 979 | 7 136 | 6 702 |
| **Group total** | **14 581** | **5** | **100** | **13 822** | **14 329** | **14 522** | **13 899** |

**Non-current assets by country, EUR million**

| | 2018 31 Mar | 2017 31 Mar | Change % | 2017 31 Dec |
|---|---|---|---|---|
| Finland | 80.4 | 82.6 | -3 | 84.6 |
| Sweden | 40.0 | 38.2 | 5 | 42.8 |
| Norway | 10.8 | 15.0 | -28 | 12.0 |
| Other | 7.2 | 5.6 | 28 | 6.5 |
| **Total non-current assets** | **138.4** | **141.5** | **-2** | **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 1–3 | 2017 1–3 | Change % | 2017 1–12 |
|---|---|---|---|---|
| Technology Services and Modernization | 7.8 | 8.6 | -9 | 32.7 |
| Business Consulting and Implementation | 0.0 | 0.0 | - | 0.1 |
| Industry Solutions | 0.2 | 0.2 | -5 | 0.9 |
| Product Development Services | 0.0 | 0.0 | - | 0.1 |
| Support Functions and Global Management | 1.7 | 1.1 | 46 | 5.7 |
| **Group total** | **9.8** | **10.0** | **-2** | **39.5** |

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

| | 2018 1–3 | 2017 1–3 | Change % | 2017 1–12 |
|---|---|---|---|---|
| Technology Services and Modernization | - | - | - | - |
| Business Consulting and Implementation | 0.4 | 0.1 | 280 | 0.5 |
| Industry Solutions | 0.9 | 1.0 | -4 | 3.7 |
| Product Development Services | - | - | - | - |
| Support Functions and Global Management | - | - | - | - |
| **Group total** | **1.3** | **1.1** | **25** | **4.3** |

**Amortization on other intangible assets by service line, EUR million**

| | 2018 1–3 | 2017 1–3 | Change % | 2017 1–12 |
|---|---|---|---|---|
| Technology Services and Modernization | 2.0 | 2.2 | -8 | 8.8 |
| Business Consulting and Implementation | 0.0 | 0.0 | - | 0.1 |
| Industry Solutions | 0.1 | 0.2 | -17 | 0.6 |
| Product Development Services | 0.0 | 0.0 | - | 0.0 |
| Support Functions and Global Management | 0.5 | 0.3 | 95 | 1.5 |
| **Group total** | **2.7** | **2.6** | **1** | **10.9** |

# Acquisitions during January–March in 2018

Tieto completed the following acquisition during the first quarter in 2018:

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

Petrostreamz is a growing provider of advanced software and services for integrated asset modeling (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. Petrostreamz is part of Industry Solutions segment.
The following table summarizes the consideration paid and the fair value of assets acquired and liabilities assumed at the acquisition date.

Recognition and measurement of identifiable assets acquired and liabilities assumed is provisional due to ongoing identification and valuation of the intangible assets.

**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 | 0.8 |
| Trade and other receivables | 1.1 |
| Cash and cash equivalents | 0.1 |
| Loans | -1.3 |
| Deferred tax liabilities | -0.3 |
| Trade and other payables | -0.5 |
| Goodwill | 5.8 |
| **Total** | **7.1** |

Contingent consideration is mainly determined by the margin development of the acquired and combined businesses 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 unit has contributed approximately EUR 0.3 million to the revenue and EUR -0.1 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 0.4 million and profit approximately EUR -0.1 million.

**Acquisition of non-controlling interest in subsidiaries of Avega**

During the first quarter of 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–March in 2018

As of January 2018 Tieto disposed of the ProArc business in Norway.

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 at the date of disposal 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 | -0.2 |
| **Fair value of net assets** | **1.1** |
| Goodwill allocation on disposals | 3.1 |
| **Total net asset allocation on disposals** | **4.2** |
| Transaction costs | 0.7 |
| Received in cash | 6.8 |
| Receivable | 1.3 |
| **Capital gain** | **3.2** |

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

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

| | 2018<br>31 Mar | 2017<br>31 Mar | Change<br>% | 2017<br>31 Dec |
|---|---|---|---|---|
| Trade receivables | 320.7 | 263.7 | 22 | 309.3 |
| Other working capital receivables | 118.6 | 133.2 | -11 | 113.2 |
| **Working capital receivables included in assets** | **439.2** | **396.9** | **11** | **422.5** |
| | | | | |
| Trade payables | 111.6 | 95.9 | 16 | 104.2 |
| Personnel related accruals | 168.5 | 159.0 | 6 | 155.0 |
| Provisions | 10.2 | 24.1 | -57 | 12.9 |
| Other working capital liabilities | 123.2 | 126.6 | -3 | 100.0 |
| **Working capital liabilities included in liabilities** | **413.6** | **405.6** | **2** | **372.1** |
| | | | | |
| **Net working capital in the statement of financial position** | **25.7** | **-8.8** | **-393** | **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 31 Mar | 2017 31 Dec |
|---|---|---|
| Foreign exchange forward contracts | 220.8 | 179.6 |
| Electricity price future contracts | 0.8 | 0.9 |

### Fair values of derivatives

| The net fair values of derivative financial instruments | 2018 31 Mar | 2017 31 Dec |
|---|---|---|
| Foreign exchange forward contracts | -0.6 | 0.8 |
| Electricity price future contracts | 0.1 | 0.1 |

Derivatives are used for economic hedging purposes only.

| Gross positive fair values of derivatives | 2018 31 Mar | 2017 31 Dec |
|---|---|---|
| Foreign exchange forward contracts | 1.6 | 1.7 |
| Electricity price future contracts | 0.1 | 0.1 |

| Gross negative fair values of derivatives | 2018 31 Mar | 2017 31 Dec |
|---|---|---|
| Foreign exchange forward contracts | -2.2 | -0.9 |
| Electricity price future contracts | 0.0 | 0.0 |

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

### Fair value measurement of financial assets and liabilities

| EUR million<br>31 Mar 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | |
| Derivatives | - | 1.7 | - | 1.7 |
| Other | - | - | 0.5 | 0.5 |
| | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Derivatives | - | -2.2 | - | -2.2 |

| EUR million<br>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 (0.5 MEUR at 31 March 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 31 Mar | 2017 31 Dec |
|---|---|---|
| For Tieto obligations | | |
| Pledges | - | 1.6 |
| Mortgages | - | 3.4 |
| Guarantees | | |
| Performance guarantees | 1.2 | 0.9 |
| Lease guarantees | 8.4 | 8.6 |
| Other | 0.5 | 0.5 |
| Other Tieto obligations | | |
| Rent commitments due in one year | 38.9 | 41.6 |
| Rent commitments due in 1–5 years | 89.9 | 98.0 |
| Rent commitments due after 5 years | 16.3 | 17.9 |
| Operating lease commitments due in one year | 10.1 | 10.9 |
| Operating lease commitments due in 1–5 years | 10.8 | 12.0 |
| Operating lease commitments due after 5 years | 0.0 | 0.4 |
| Commitments to purchase assets | 1.4 | 7.4 |
| Other | 1.4 | 1.6 |

# Number of shares

| | 2018 1–3 | 2017 1–3 | 2017 1–12 |
|---|---|---|---|
| **Outstanding shares, end of period** | | | |
| Basic | 73 826 349 | 73 723 125 | 73 723 125 |
| Effect of dilutive share-based benefit plans | 45 810 | 123 267 | 151 786 |
| Diluted | 73 872 159 | 73 846 392 | 73 874 911 |
| | | | |
| **Outstanding shares, average** | | | |
| Basic | 73 742 594 | 73 720 853 | 73 722 565 |
| Effect of dilutive share-based benefit plans | 45 810 | 123 267 | 151 786 |
| Diluted | 73 788 404 | 73 844 120 | 73 874 351 |
| | | | |
| **Company's possession of its own shares** | | | |
| End of period | 282 903 | 386 127 | 386 127 |
| Average | 366 658 | 388 399 | 386 687 |

# Key figures

| | 2018 1–3 | 2017 1–3 | 2017 1–12 |
|---|---|---|---|
| Earnings per share, EUR | | | |
| Basic and diluted | 0.41 | 0.22 | 1.46 |
| Equity per share, EUR | 5.29 | 5.45 | 6.46 |
| | | | |
| Return on equity, 12-month rolling, % | 30.7 | 25.3 | 22.3 |
| Return on capital employed, 12-month rolling, % | 29.2 | 25.8 | 20.5 |
| Equity ratio, % | 36.3 | 39.2 | 42.5 |
| Interest-bearing net debt, EUR million | 100.7 | 38.0 | 155.7 |
| Gearing, % | 25.8 | 9.5 | 32.7 |
| Capital expenditure, EUR million | 8.2 | 9.3 | 50.8 |
| Acquisitions, EUR million | 9.9 | - | 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 with IFRS. Adjusted items include restructuring costs, capital gains/losses, goodwill impairment charges and other items.

| EUR million | 2018 1–3 | | 2017 1–3 | 2017 1–12 |
|---|---|---|---|---|
| Operating profit (EBIT) | 37.3 | | 22.0 | 139.1 |
| + restructuring costs | 0.9 | | 13.5 | 22.7 |
| - capital gains | -3.2 | | - | - |
| + capital losses | - | | - | 0.3 |
| +/- M&A related items | 0.1 | | 0.0 | -0.2 |
| +/- other | 1.5 | (* | - | -0.5 |
| Adjusted operating profit (EBIT) | 36.6 | | 35.5 | 161.4 |

"Other items" include value added tax correction of EUR 1.2 million from previous years in Russia.

# Quarterly figures

### Key figures

| | 2018<br>1–3 | 2017<br>10–12 | 2017<br>7–9 | 2017<br>4–6 | 2017<br>1–3 |
|---|---|---|---|---|---|
| Earnings per share, EUR | | | | | |
| Basic and diluted | 0.41 | 0.50 | 0.46 | 0.28 | 0.22 |
| Equity per share, EUR | 5.29 | 6.46 | 6.07 | 5.61 | 5.45 |
| Return on equity, 12-month rolling, % | 30.7 | 22.3 | 23.5 | 23.6 | 25.3 |
| Return on capital employed,12-month rolling, % | 29.2 | 20.5 | 21.0 | 21.0 | 25.8 |
| Equity ratio, % | 36.3 | 42.5 | 44.5 | 40.6 | 39.2 |
| Interest-bearing net debt, EUR million | 100.7 | 155.7 | 161.4 | 164.6 | 38.0 |
| Gearing, % | 25.8 | 32.7 | 36.1 | 39.8 | 9.5 |
| Capital expenditure, EUR million | 8.2 | 11.4 | 9.1 | 21.0 | 9.3 |
| Acquisitions, EUR million | 9.9 | 49.3 | - | - | - |

### Income statement, EUR million

| | 2018<br>1–3 | 2017<br>10–12 | 2017<br>7–9 | 2017<br>4–6 | 2017<br>1–3 |
|---|---|---|---|---|---|
| Net sales | 406.3 | 409.6 | 355.0 | 385.6 | 393.1 |
| Other operating income | 7.2 | 6.8 | 3.2 | 4.3 | 3.1 |
| Employee benefit expenses | -234.2 | -219.7 | -190.0 | -224.0 | -239.7 |
| Depreciation, amortization and impairment losses | -13.8 | -13.8 | -13.6 | -13.6 | -13.7 |
| Other operating expenses | -129.3 | -136.1 | -114.4 | -124.9 | -121.5 |
| Share of results in joint ventures | 1.0 | 1.0 | 0.8 | 0.7 | 0.7 |
| Operating profit (EBIT) | 37.3 | 47.9 | 41.1 | 28.1 | 22.0 |
| Financial income and expenses | -0.7 | -1.6 | -0.2 | -0.6 | -1.0 |
| Profit before taxes | 36.7 | 46.4 | 40.8 | 27.5 | 21.0 |
| Income taxes | -6.8 | -9.6 | -6.6 | -6.6 | -5.2 |
| **Net profit for the period** | **29.9** | **36.7** | **34.2** | **20.9** | **15.9** |

**Statement of Financial Position, EUR million**

| | 2018 31 Mar | 2017 31 Dec | 2017 30 Sep | 2017 30 Jun | 2017 31 Mar |
|---|---|---|---|---|---|
| Goodwill | 437.4 | 441.3 | 405.8 | 405.0 | 409.5 |
| Other intangible assets | 46.1 | 51.1 | 48.5 | 50.5 | 47.3 |
| Property, plant and equipment | 92.2 | 94.9 | 92.9 | 97.1 | 94.1 |
| Interests in joint ventures | 14.2 | 16.3 | 15.3 | 14.4 | 13.8 |
| Other non-current assets | 28.5 | 27.4 | 31.3 | 31.1 | 32.2 |
| Total non-current assets | 618.4 | 631.0 | 593.8 | 598.1 | 596.9 |
| | | | | | |
| Trade receivables and other current assets | 459.8 | 440.6 | 414.2 | 424.2 | 419.6 |
| Cash and cash equivalents | 53.9 | 78.2 | 41.9 | 51.3 | 76.9 |
| Total current assets | 513.7 | 518.8 | 456.1 | 475.4 | 496.5 |
| | | | | | |
| **Total assets** | **1 132.1** | **1 149.9** | **1 049.9** | **1 073.4** | **1 093.5** |
| | | | | | |
| Total equity | 390.7 | 476.1 | 447.7 | 413.9 | 401.9 |
| | | | | | |
| Non-current loans | 101.7 | 102.5 | 102.1 | 103.7 | 104.0 |
| Other non-current liabilities | 55.0 | 57.5 | 51.5 | 54.7 | 56.5 |
| Total non-current liabilities | 156.8 | 160.0 | 153.6 | 158.4 | 160.5 |
| | | | | | |
| Trade payables and other current liabilities | 521.1 | 368.8 | 331.2 | 368.3 | 496.1 |
| Provisions | 7.8 | 10.3 | 12.4 | 16.0 | 18.3 |
| Current loans | 55.7 | 134.6 | 105.1 | 116.7 | 16.7 |
| Total current liabilities | 584.6 | 513.7 | 448.6 | 501.1 | 531.1 |
| | | | | | |
| **Total equity and liabilities** | **1 132.1** | **1 149.9** | **1 049.9** | **1 073.4** | **1 093.5** |

**Statement of Cash flows, EUR million**

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

# Quarterly figures by segments

**Customer sales by service line, EUR million**

| | 2018 1–3 | 2017 10–12 | 2017 7–9 | 2017 4–6 | 2017 1–3 |
|---|---|---|---|---|---|
| Technology Services and Modernization | 198.8 | 198.9 | 180.1 | 194.4 | 197.7 |
| Business Consulting and Implementation | 50.2 | 41.8 | 31.7 | 37.6 | 39.3 |
| Industry Solutions | 123.2 | 135.0 | 114.4 | 122.3 | 124.5 |
| Product Development Services | 34.1 | 34.3 | 29.0 | 31.4 | 31.9 |
| **Group total** | **406.3** | **409.6** | **355.0** | **385.6** | **393.1** |

**Customer sales by industry group, EUR million**

| | 2018 1–3 | 2017 10–12 | 2017 7–9 | 2017 4–6 | 2017 1–3 |
|---|---|---|---|---|---|
| Financial Services | 96.4 | 99.9 | 92.2 | 96.6 | 96.0 |
| Public, Healthcare and Welfare | 132.8 | 135.5 | 112.3 | 126.6 | 127.6 |
| Industrial and Consumer Services | 142.9 | 140.1 | 121.7 | 131.6 | 138.0 |
| Product Development Services | 34.1 | 34.3 | 28.9 | 31.4 | 32.0 |
| **Group total** | **406.3** | **409.6** | **355.0** | **385.6** | **393.1** |

**Operating profit (EBIT) by service line, EUR million**

| | 2018 1–3 | 2017 10–12 | 2017 7–9 | 2017 4–6 | 2017 1–3 |
|---|---|---|---|---|---|
| Technology Services and Modernization | 22.9 | 24.7 | 25.0 | 20.4 | 14.6 |
| Business Consulting and Implementation | 2.7 | 2.4 | 0.7 | 2.6 | 2.2 |
| Industry Solutions | 11.2 | 23.2 | 16.6 | 9.3 | 6.3 |
| Product Development Services | 4.3 | 3.5 | 2.2 | 2.4 | 4.2 |
| Support Functions and Global Management | -3.8 | -5.9 | -3.4 | -6.6 | -5.3 |
| **Operating profit (EBIT)** | **37.3** | **47.9** | **41.1** | **28.1** | **22.0** |

**Operating margin (EBIT) by service line, %**

| | 2018 1–3 | 2017 10–12 | 2017 7–9 | 2017 4–6 | 2017 1–3 |
|---|---|---|---|---|---|
| Technology Services and Modernization | 11.5 | 12.4 | 13.9 | 10.5 | 7.4 |
| Business Consulting and Implementation | 5.3 | 5.7 | 2.3 | 7.0 | 5.7 |
| Industry Solutions | 9.1 | 17.2 | 14.5 | 7.6 | 5.0 |
| Product Development Services | 12.6 | 10.3 | 7.6 | 7.6 | 13.1 |
| **Operating margin (EBIT)** | **9.2** | **11.7** | **11.6** | **7.3** | **5.6** |

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

| | 2018 1–3 | 2017 10–12 | 2017 7–9 | 2017 4–6 | 2017 1–3 |
|---|---|---|---|---|---|
| Technology Services and Modernization | 23.1 | 26.2 | 24.8 | 23.1 | 21.6 |
| Business Consulting and Implementation | 2.8 | 2.0 | 0.9 | 1.5 | 2.8 |
| Industry Solutions | 9.4 | 21.3 | 16.5 | 11.0 | 9.9 |
| Product Development Services | 4.3 | 3.5 | 2.2 | 2.6 | 4.3 |
| Support Functions and Global Management | -3.0 | -3.8 | -3.2 | -2.6 | -3.1 |
| **Adjusted operating profit (EBIT)** | **36.6** | **49.2** | **41.1** | **35.5** | **35.6** |

**Adjusted operating margin (EBIT) by service line, %**

| | 2018 1–3 | 2017 10–12 | 2017 7–9 | 2017 4–6 | 2017 1–3 |
|---|---|---|---|---|---|
| Technology Services and Modernization | 11.6 | 13.2 | 13.8 | 11.9 | 10.9 |
| Business Consulting and Implementation | 5.5 | 4.8 | 2.8 | 4.0 | 7.1 |
| Industry Solutions | 7.6 | 15.8 | 14.4 | 9.0 | 8.0 |
| Product Development Services | 12.7 | 10.3 | 7.5 | 8.3 | 13.6 |
| **Adjusted operating margin (EBIT)** | **9.0** | **12.0** | **11.6** | **9.2** | **9.0** |

# Major shareholders on 31 March 2018

| | | Shares | % |
|---|---|---|---|
| 1 | Cevian Capital | 11 066 684 | 14.9 |
| 2 | Solidium Oy | 7 415 418 | 10.0 |
| 3 | Silchester International Investors LLP *) | 7 401 027 | 10.0 |
| 4 | Swedbank Robur fonder | 1 811 133 | 2.4 |
| 5 | Ilmarinen Mutual Pension Insurance Co. | 1 885 696 | 2.5 |
| 6 | OP-Finland Value Fund | 859 853 | 1.2 |
| 7 | Elo Pension Co. | 838 648 | 1.1 |
| 8 | Nordea Funds | 812 985 | 1.1 |
| 9 | The State Pension fund | 773 000 | 1.0 |
| 10 | Svenska litteratursällskapet i Finland r.f. | 641 345 | 0.9 |
| | Top 10 shareholders total | 33 505 789 | 45.2 |
| | - of which nominee registered | 9 212 160 | 12.4 |
| | | | |
| | Nominee registered other | 24 935 012 | 33.6 |
| | Others | 15 668 451 | 21.1 |
| | **Total** | **74 109 252** | **100.0** |

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

*) 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.

## For further information, please contact:

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**A teleconference for analysts and media** will be held on Thursday 26 April 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 Lasse Heinonen, 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: +1 719 457 1036
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.

TIETO CORPORATION

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**Tieto** aims to capture the significant opportunities of the data-driven world and turn them into lifelong value for people, business and society. We aim to be customers' first choice for business renewal by combining our software and services capabilities with a strong drive for co-innovation and ecosystems.

Headquartered in Finland, Tieto has over 14 000 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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