

Q1 2016 Interim Report

January–March

Healthy growth in IT services and continued profitability improvement

- Industry Products driving growth – in line with the ambition to expand software businesses
- Product Development Services performing well
- New strategy to accelerate innovation and growth launched



tieto

Key figures for the first quarter

IT services

- Sales growth totalled 6.0%, sales in local currencies up by 7.0%
- Adjusted operating profit amounted to EUR 29.1 (24.2) million, 8.6% (7.6) of sales

The Group

- Sales growth totalled 0.5%, sales in local currencies up by 1.4%
- Adjusted operating profit amounted to EUR 31.5 (30.7) million, 8.6% (8.4) of sales
- Order intake (Total Contract Value) at an anticipated level of EUR 325 (430) million, down due to the timing of new agreements – order backlog at EUR 1 907 (1 819) million

M&A impact visible in tables on page 8.

	1–3/2016	1–3/2015
Net sales, EUR million	367.5	365.6
Change, %	0.5	-5.5
Change in local currencies, %	1.4	-3.2
Operating profit (EBITA), EUR million ¹⁾	31.6	17.2
Operating margin (EBITA), %	8.6	4.7
Operating profit (EBIT), EUR million	28.3	13.9
Operating margin (EBIT), %	7.7	3.8
Adjusted ²⁾ operating profit (EBIT), EUR million	31.5	30.7
Adjusted ²⁾ operating margin (EBIT), %	8.6	8.4
Profit after taxes, EUR million	21.5	9.1
EPS, EUR	0.29	0.12
Net cash flow from operations, EUR million	46.9	36.7
Return on equity, 12-month rolling, %	25.7	4.5
Return on capital employed, 12-month rolling, %	27.2	7.7
Capital expenditure and acquisitions, EUR million	9.4	11.6
Interest-bearing net debt, EUR million	-21.3	-85.9
Net debt/EBITDA	-0.1	-0.6
Book-to-bill	0.9	1.2
Order backlog	1 907	1 819
Personnel on 31 March	13 200	13 456

¹⁾ includes amortization of all intangible items; previously, only acquisition-related intangible items included

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

Full-year outlook for 2016

Tieto expects its adjusted¹⁾ full-year operating profit (EBIT) to increase from the previous year's level (EUR 150.8 million in 2015).

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

CEO's comment

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

"We had a good start for the year with accelerated growth and improved profitability in IT services – with growth supported by our recent acquisitions. It is very encouraging to see a number of our businesses outperforming the market. Of the industries, Financial Services and Public, Healthcare and Welfare had a really strong quarter. This success was also visible in Industry Products, which delivered strong growth of 13%. In addition, our cloud services' competitiveness is demonstrated by revenue growth of 72%.

I'm pleased to see that our performance in the past quarter is well in line with the main choices made in our recently launched strategy. Our ambition is to be customers' first choice in their business renewal – the dynamic marketplace with its digitalization initiatives opens up new opportunities for both our customers and us. The combination of software-centric industry solutions with our growth investments and high availability cloud services provides us with attractive growth opportunities. While continuing to invest in new technologies and new growth opportunities, we maintain our commitment to continued profitability improvement and an attractive dividend policy.

While we aim to be customers' first choice for business renewal, it is highly inspiring for all of us at Tieto to take an active role in the creation of open ecosystems in pursuit of new sources of innovation and growth."

IT market development in 2016

- It is a market trend for IT vendors to take extensive responsibility for integration of customers' service portfolios including private and public cloud. In line with this SIAM (Service Integration and Management) trend, vendors act as a service broker.
- In new digitalized service environments, customers seek to build their IT architectures on agile scalable platforms allowing easy and automated application launches and development.

The market Tieto operates in is estimated to grow by around 2% in 2016. Emerging services are estimated to experience double-digit growth while the decline in traditional services will continue. The Swedish market is expected to be active. In Finland, the challenging macroeconomic environment will continue to affect the IT services market.

Digitalization enabled by new technologies is increasingly affecting all industries and industrial processes. It is already normal for consumers to have access to everything 24/7, including self-services and personalized digital experiences. In seeking to ensure their market position in the rapidly changing competitive landscape, customers' focus has been shifting to the digitalization of their businesses. As user experience becomes an absolute requirement for digital enterprises, the role of IT vendors is becoming more strategic. For IT partners, it is increasingly important to have strong industry and business insight, technology understanding and the ability to orchestrate new digital services for clients. New agile architectures and automated environments are needed to speed up innovation and flexibly develop and release new applications.

Based on the number of people with access to the internet, the amount of data is increasing exponentially. Coupled with technologies such as the cloud, big data, Internet of Things and robotics, this will lead to a new data-centric ecosystem where individuals are provided with personalized, predictive experiences. New opportunities arise not only within industries but also in new ecosystems in the intersection of multiple industries and consequently, traditional industry boundaries will be blurred.

Co-creation with partners and customers is becoming more important in order to provide customers with best-of-breed technologies. This trend is accelerated by increasing openness, as open APIs (application programming interface) and open data make collaborative innovation possible.

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

Industry sector drivers

- In the **financial services** sector, the market is driven by customer experience, service digitalization, process automation and regulation both in the banking and insurance segments. The market for core system modernization is picking up and customers are initiating transformation programmes aiming at moving to standard solutions. Interest in business process outsourcing and software as a service delivered on secure cloud platforms is growing, especially in the SME segment. The market for business and technology consulting is at a good level in all countries.

- In the **manufacturing and forest** sector, there is a strong digitalization trend and clients are seeking new business and service models to ensure steady revenues, often based on Industry 4.0/Internet of Things. At the same time, only projects with high business value are initiated and clients seek cost savings and automation in traditional IT services. The ERP market has remained active across all the Nordic countries.
- In the **retail and logistics** sector, enterprises are investing in more advanced solutions in order to find new revenue sources and to achieve better consumer engagement. Through digitalization, retailers can provide a unified customer experience in all interaction across different touchpoints. Demand for consultancy and implementation capabilities to renew eCommerce channels and underlying processes has remained good, as has interest in digitalizing stores and store workers.
- In the **public** sector, the digitalization of services and processes will continue with a focus on cost reductions and citizen-centric services. In Sweden, the outsourcing trend continues to be strong and there is robust demand for Tieto's cloud services. In Finland, there is good demand for shared infrastructure services and document and case management solutions, as Finnish municipalities are affected by low budgets and uncertainty related to the reform in the healthcare and welfare sector.
- In the **healthcare and welfare** sector, the digitalization will continue due to the growing number of elderly population and anticipated lack of care workers. Growth is supported by national eArchive deliveries to customers in the private sector in Finland. There is also healthy demand for solutions such as digitalized learning and planning for the education segment and eServices for welfare.
- In the **energy** utility sector, differentiation in the current competitive environment is increasingly based on improved customer interaction. As a result, there is interest in investing in customer experience management. In the oil & gas market, investment levels have remained low and customers are requesting price reductions in continuous services as well.
- In the **media sector**, customers are driving business transformation, reflecting the increased deployment of digital services. Due to clients' tight budgets, investment decisions are driven by cost reductions. This is expected to result in new outsourcing opportunities in the mid-term.
- In the **telecom sector**, IT transformation programmes are driven by the need to simplify legacy systems and cut costs as well as by the potential to create additional business value. Telecom operators are moving from customized solutions to sourcing of standardized packaged solutions. IT service providers are experiencing aggressive competition in this sector.

New strategy and financial objectives launched

As digitalization gains speed, demand for new data-driven innovations and the renewal of customers' business and IT increases rapidly. Tieto launched its new strategy on 17 March. The company will enhance its competitiveness and growth through three strategic choices:

- Services to accelerate customer value
- Nordic leadership and international expansion
- Active participation in open ecosystems and co-innovation.

Tieto's customers are faced with a dual agenda: to run their existing businesses efficiently while innovating new services. Tieto supports customers with:

- End-to-end industry solutions based on leading industry software products, system integration capabilities and partnerships. By taking a larger role in customers' value chain, Tieto helps them to optimize their business processes and drive speed. A dynamic portfolio of industry solutions forms the basis for Tieto's differentiation and covers all industry groups.
- Active modernization of customers' technology landscapes in the rapidly changing business environment. Through standard service architecture, service integration and management (SIAM), cognitive technologies and cloud, Tieto fosters continuous efficiency in customers' business, faster technology adoption and high return on investment.
- Co-innovation of new data-driven businesses, capturing the opportunities provided by the data-driven economy. This creates new businesses beyond the scope of the customers' current operations.

Focusing on Nordic enterprises and the public sector, Tieto seeks to grow by further increasing its market share in the Nordics. Growth will also be supported by international expansion of selected industry solutions that have proven to

be effective in current markets. Larger-scale expansion to adjacent markets, including the full scope of services, will be considered towards the end of the strategy period.

Dividend policy unchanged

Tieto's dividend policy is unchanged in spite of the company's greater focus on growth. The long-term financial objectives aim to ensure continued attractive shareholder returns:

- IT services revenue growth above the market (CAGR)
- 10% reported operating margin (EBIT)
- Aim is to increase dividends annually in absolute terms
- Net debt/EBITDA: upper limit at 1.5 in the long run.

Tieto aims to grow faster than the market, organically at least at market rate. Profitability improvement is expected to continue with the adjusted margin sustainably above 10% and restructuring gradually normalizing. Margin improvement is mainly driven by growth, continued productivity gains and business mix change. Investments in offering development, fully expensed, are expected to be below 5% of sales, somewhat up from previous years. Capital expenditure is expected to remain below 4% of sales.

Growth businesses

Tieto is seeking to grow faster than the market in the long term. Tieto's current high-growth businesses with sales of around EUR 270 million include

- Lifecare
- Cloud services
- Customer Experience Management
- Industrial Internet
- Security services.

In the first quarter, aggregated growth of these businesses amounted to 25%. Cloud services continued to be the strongest area with year-on-year growth of 72%. Demand is also strong in Customer Experience Management, in which sales were up by 31% in the first quarter. In Security, Tieto's latest start-up, the focus has been on the development of new services and partner network. Following the successful launch of Tieto Security Wall during the first quarter, Security is preparing to launch new services during 2016. Lifecare and Industrial Internet also saw positive development.

In the cloud services area, Managed Services has launched a number of new services during the past months, including Tieto Enterprise Cloud Orchestrator (TECO), and Tieto Dynamic Landscape for databases (powered by Oracle). TECO automates customers' end-to-end application lifecycle management and the deployment of infrastructure and thereby helps customers innovate and deploy new digital products and services in a more agile way. Additionally, cloud portfolio will be enhanced with integrated cloud services. These new services flexibly manage the interface between the private and public cloud by supporting design and orchestration procedures applicable in both.

In Customer Experience Management, there are numerous market opportunities as a majority of companies have designated digital customer experience as a strategic investment area, while the maturity level in many companies is still very low. Partnering with clients typically starts with advisory services, which open the opportunity to expand to implementation of components and solutions, and even full transformation.

In addition to the current high-growth businesses, a dynamic portfolio starting from over ten industry solutions proven in current markets will drive growth. Tieto's emerging services, including the company's software and digital services, represent in total around half of sales of IT services and another half is accounted for by traditional services. Emerging services are anticipated to grow by 10–20% (CAGR 2015–2020). Tieto drives scale and repeatability through investments in software businesses, with start-up businesses providing exponential growth. Additionally, the company will continue to invest in standardization and automation to drive constant improvements in productivity and quality. The portfolio Tieto will invest in will be presented in detail at the Capital Market Day on 31 May.

Performance drivers in 2016

In IT services, Tieto aims to grow faster than the market in 2016. In 2015, Tieto completed three acquisitions that will also affect sales in 2016. The sales for the acquired companies amounted to a total of EUR 57 million in 2015, of which EUR 17 million was visible in 2015. The trend in profitability is also expected to remain favourable. In addition to sales growth, performance drivers in 2016 include

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

As new services are less labour-intensive and automation via self-service channels will reduce the need for certain existing roles, Tieto announced in 2015 a programme related to the ongoing automation in Managed Services and industrialization in application management. The programme in Managed Services resulted in over 500 reductions and the initial phase has now been concluded. The implementation of the measures in Consulting and System Integration

will continue during 2016. By the end of March, around 150 of the planned 190 reductions had materialized, including voluntary leaves and internal mobility. During 2016, reductions are anticipated to result in gross savings of close to EUR 30 million, mainly in the first half of the year. In the first quarter, cost savings amounted to over EUR 10 million.

The company continues to renew and strengthen its service portfolio and competencies in line with its strategy, partly offsetting the positive impact of cost savings. Recruitments of new talent within growth areas include industry consultants, digital architects, software developers, technical specialists, service desk specialists and sales staff. During the first quarter, Tieto added over 200 new competences, and during the past twelve months net recruitments amounted to around 500.

Tieto will also continue to increase its investments in offering development in promising growth areas with a special focus on industry-specific solutions. Offering development costs are anticipated to increase from 2015 while remaining below 5% of Group sales in 2016. In the first quarter, development costs were up by over EUR 2 million.

In Product Development Services, the insourcing decision made by one key customer in October 2014 continued to affect sales for the first quarter of 2016. This was the final quarter affected by the decision and sales are anticipated to normalize to current levels as from the second quarter.

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

Financial performance in January–March

First-quarter net sales increased by 0.5% to EUR 367.5 (365.6) million, growth of 1.4% in local currencies. In IT services, net sales were up by 6.0%, in local currencies up by 7.0%. In Product Development Services, sales were down by 37.4% mainly due to large projects concluded, as announced in October 2014. The acquisitions added EUR 16 million in sales, mainly affecting Industry Products, as detailed in the table published on Tieto's website at www.tieto.com/investors. Divestments had a negative impact of EUR 2 million. Currency fluctuations had a negative impact of EUR 3 million on sales, mainly due to the weaker Norwegian Krona.

First-quarter operating profit (EBIT) amounted to EUR 28.3 (13.9) million, representing a margin of 7.7% (3.8). Operating profit included EUR 3.2 million in restructuring costs and adjusted¹⁾ operating profit stood at EUR 31.5 (30.7) million, or 8.6% (8.4) of net sales. For IT services, adjusted operating profit rose to EUR 29.1 (24.2) million mainly due to the automation programme in Managed Services and the favourable business mix development.

Cost savings, mainly related to the automation programme in Managed Services and industrialization of application management services, had a positive effect of over EUR 10 million on IT services' operating profit compared with the first quarter of 2015 while the positive impact of gross savings was curbed by salary inflation of around EUR 5 million and recruitments in new service areas.

Offering development costs were up by over EUR 2 million. Currency changes had a negative impact of EUR 1 million on operating profit. The negative effect was mainly attributable to the Norwegian Krona.

Depreciation and amortization amounted to EUR 13.3 (14.5) million. Net financial expenses stood at EUR 0.6 (1.7) million in the first quarter. Net interest expenses were EUR 0.6 (0.5) million and net gains from foreign exchange transactions EUR 0.2 (loss -1.0) million. Other financial income and expenses amounted to EUR -0.2 (-0.2) million.

Earnings per share (EPS) totalled EUR 0.29 (0.12). Adjusted¹⁾ earnings per share amounted to EUR 0.33 (0.31).

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 /2016	Customer sales 1–3/2015	Change, %	Operating profit 1–3/2016	Operating profit 1–3/2015
Managed Services	129	126	2	10.8	-8.3
Consulting and System Integration	102	99	3	5.6	8.2
Industry Products	107	94	13	13.8	12.6
Product Development Services	29	47	-37	2.6	6.5
Support Functions and Global Management				-4.7	-5.0
Total	367	366	1	28.3	13.9

Operating margin by service line

%	Operating margin 1–3 /2016	Operating margin 1–3/2015	Adjusted ¹⁾ operating margin 1–3 /2016	Adjusted ¹⁾ operating margin 1–3/2015
Managed Services	8.4	-6.6	8.7	3.6
Consulting and System Integration	5.5	8.3	6.8	10.8
Industry Products	13.0	13.3	13.3	13.4
Product Development Services	9.0	14.0	8.4	14.0
Total	7.7	3.8	8.6	8.4

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 **Managed Services**, the business transformation continued with automation, offshore transfers and new offering launches, reflecting the shift from traditional services to emerging services. Sales of cloud services were up by 72% compared with the corresponding quarter in 2015 and represented 20% of Managed Services sales. Adjusted operating profit rose to EUR 11.3 (4.6) million, mainly due to the savings related to the automation programme completed in 2015. The programme aims at improving customer experience, competitiveness and efficiency of delivery. Automation will support operating margin in the second quarter as well.

In **Consulting and System Integration**, growth of 3% is supported by the acquisition of Smilehouse and Imano. Demand remained strongest in packaged solutions and Customer Experience Management. Additionally, cloud services, including integration services and Value Networks, Tieto's solution for financial value chain management, saw double-digit growth. At the same time, the market for traditional, customized application management continued to decline. Adjusted operating profit amounted to EUR 7.0 (10.8) million. As anticipated, a number of projects were delayed. This coupled with recruitments, mainly in new growth areas, resulted in low utilization rates. The net number of employees has increased by around 200 during the past twelve months, including the personnel of acquired companies. Utilization rates are expected to improve in the second half of the year and in the second quarter, margin is anticipated to remain below the previous year's level.

In **Industry Products**, very strong growth of 13% was driven by Financial Services and Public, Healthcare and Welfare with sales in local currencies up by 16% and 35%, respectively. Sales were affected by the acquisition of Software Innovation (over EUR 11 million) and the divestment of Lean System (EUR 2 million). Growth of the Healthcare and Welfare solutions (Lifecare) was 6% in local currencies. Demand in the oil and gas segment remained weak and sales continued to decline. Operating profit was somewhat up while the improvement was partly offset by a number of new recruitments, especially in Financial Services. Additionally, offering development costs were up by some EUR 2 million. Margin trend is expected to follow the previous year's path.

In **Product Development Services (PDS)**, sales were affected by insourcing by one key customer whose projects ended after the first quarter of 2015. There is accelerated interest and increased demand in telecom cloud network function virtualization and software-defined networking and Tieto's pipeline in new growth areas is improving. Operating profit was down due to the fact that the figure for the first quarter in 2015 was exceptionally high, as it included income related to temporary commercial terms. The existing business has a healthy cost structure and the operating margin is expected to remain in a range below 10%.

Customer sales by industry group

EUR million	Customer sales 1–3 /2016	Customer sales 1–3 /2015	Change, %
Financial Services	88	84	5
Manufacturing, Retail and Logistics	79	78	2
Public, Healthcare and Welfare	118	101	17
Telecom, Media and Energy	53	57	-7
IT services	338	319	6
Product Development Services	29	47	-37
Total	367	366	1

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

In **Manufacturing, Retail and Logistics**, sales were affected by the acquisition of Smilehouse and Imano in December and the divestment of Lean System. Strong growth continued in the manufacturing sector due to several new agreements, but the positive development was affected by delayed investment decisions in the retail sector in Finland.

In **Public, Healthcare and Welfare**, sales were up by 17%. The acquisition of Software Innovation added over EUR 11 million to sales. Demand remained good across all segments, the Healthcare and Welfare sector and the public sector in Finland and Sweden.

In **Telecom, Media and Energy**, sales were down as anticipated due to the expiry of some outsourcing contracts in the media segment. In the oil and gas segment, a change in the delivery model resulted in improved price competitiveness while sales reduced. Positive development in the energy utilities segment continued and sales to the telecom segment remained at the previous year's level.

M&A impact

In IT services, first-quarter organic growth in local currencies was 2.6%. At Group level, first-quarter sales in local currencies were organically down by 2.5% due to the decline in Product Development Services sales. Product Development Services sales were affected by the insourcing decision made by one key customer in October 2014.

The acquisitions added EUR 16 million in sales, as detailed in the table published on Tieto's website at www.tieto.com/investors. Divestments had a negative impact of EUR 2 million.

M&A impact by service line

	Growth, % (in local currencies) 1–3 /2016	Organic growth, % (in local currencies) 1–3 /2016
Managed Services	2.4	2.4
Consulting and System Integration	3.2	-1.3
Industry Products	15.8	5.8
IT services	7.0	2.6
Product Development Services	-37.5	-37.5
Total	1.4	-2.5

M&A impact by industry group

	Growth, % (in local currencies) 1–3 /2016	Organic growth, % (in local currencies) 1–3 /2016
Financial Services	6.3	6.3
Manufacturing, Retail and Logistics	1.8	0.1
Public, Healthcare and Welfare	17.7	6.5
Telecom, Media and Energy	-4.4	-6.8
IT services	7.0	2.6
Product Development Services	-37.5	-37.5
Total	1.4	-2.5

Cash flow, financing and investments

First-quarter net cash flow from operations amounted to EUR 46.9 million (36.7), including the decrease of EUR 17.8 (12.9) million in net working capital.

Payments for restructuring, which have a negative impact on cash flow, amounted to EUR 7.8 (10.8) million in the first quarter. Restructuring-related payments in the second quarter of 2016 are anticipated to remain at the first-quarter level.

Tax payments were EUR 16.4 (7.3) million in the first quarter. In January 2016, Tieto paid EUR 6.0 million based on the transfer pricing audit for tax years 2009–2013 in Finland. The decision has been appealed.

First-quarter capital expenditure totalled EUR 9.4 (11.6) million, of which paid EUR 9.4 (11.6) million. Capital expenditure represented 2.6% (3.2) of net sales and was mainly related to data centres. Net payments for acquisitions totalled EUR 1.4 (none) million.

The equity ratio was 38.9% (39.6). Gearing increased to -5.3% (-21.5). Interest-bearing net debt totalled EUR -21.3 (-85.9) million, including EUR 124.8 million in interest-bearing debt, EUR 6.4 million in finance lease liabilities, EUR 7.4 million in finance lease receivables, EUR 0.5 million in other interest-bearing receivables and EUR 144.6 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 104.7 million at the end of March. Interest-bearing short-term loans amounted to EUR 26.6 million, mainly related to commercial papers, joint venture cash pool balances and software licence financing. The syndicated revolving credit facility of EUR 150 million maturing in May 2020 was not in use at the end of March.

Order backlog

Total Contract Value (TCV) amounted to EUR 325 (430) million in the first quarter. The anticipated decline was attributable to the timing of new agreements. The total value, including the part beyond the notice period, is included in the TCV. First-quarter book-to-bill stood at 0.9 (1.2).

The order backlog rose to EUR 1 907 (1 819) million. The increase was partly attributable to the positive impact from acquisitions. Of the backlog, 42% (43) is expected to be invoiced during the current year.

Major agreements in January–March

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

In February, Tieto signed a five-year agreement with Skandiabanken ASA to provide funds and securities solutions. The agreement is an important business enabler to Skandiabanken ASA as an independent Norwegian bank and a step in strengthening both companies' foothold in Norway.

In February, Scandinavia's largest online fashion store Nelly.com turned to Tieto to help it provide a better customer experience. Through Tieto's Customer Care as a Service (CCaaS), Nelly.com will be able to offer personal shopping

service. The three-year contract comprises a cloud-based solution covering all channels: web, voice, chat, email and social media. CCaaS is a complete customer service solution based on the industry-leading Genesys platform.

In February, Tieto signed an agreement with leading Nordic metals company Boliden to deliver a solution for end-user services that will standardize the company's global IT workplace processes. The standardized platform will be based on Tieto Energized Workplace, a comprehensive set of tools that give users easier access to applications, ensure secure data and help enable a more mobile workforce. The contract is valid for three years with an option to extend by two additional years.

In February, the Swedish Research Council, a public agency that advises the government on scientific research, chose Tieto as its partner to modernize IT operations with cloud-based services and solutions. The deal is valid for four years and has an estimated value of SEK 20 million.

In March, Tieto signed an agreement with Volvo Car Retail Solutions (VCRS) to provide the company with cloud services. The three-year agreement covers the Nordic countries and has a total value of over EUR 3 million.

Personnel

The number of full-time employees amounted to 13 200 (13 456) at the end of March. The number of full-time employees in the global delivery centres totalled 6 159 (6 124), or 46.7% (45.5) of all personnel.

In the first quarter, the number of full-time employees rose by a net amount of over 100. In PDS, the number of personnel decreased by some 50. In IT services, recruitments increased the number of personnel by a net of over 200 and reductions amounted to around 50.

During the past twelve months, Tieto's recruitments resulted in around 500 additional roles (rolling 12 months).

The 12-month rolling employee turnover stood at 9.7% (10.8) at the end of March.

Salary inflation is expected to remain at around 3% on average in 2016. In offshore countries, salary inflation is clearly above the average.

Management

To execute its new strategy, Tieto will adjust its operating structure as of 1 July. The structure is based on industry groups driving go-to-market activities and service lines as the primary reporting segment. The third-quarter interim report will be prepared in accordance with the new reporting structure.

Industry groups

- Financial Services
- Public, Healthcare and Welfare
- Industrial and Consumer Services

Service lines

- Technology Services and Modernization
- Industry Solutions, including data-driven businesses organized independently of other businesses – virtual service line of businesses organized in each industry group
- Business Consulting and Implementation – virtual service line of businesses organized in each industry group
- Product Development Services – independent unit pursuing global opportunities.

Tieto's Leadership Team will consist of the following persons as of 1 July 2016:

Kimmo Alkio, President and CEO

Håkan Dahlström, Technology Services and Modernization

Lasse Heinonen, Chief Financial Officer

Per Johanson, Financial Services

Ari Järvelä, New Data-driven Businesses

Ari Karppinen, Chief Technology Officer

Satu Kiiskinen, Industrial and Consumer Services

Katariina Kravi, Human Resources

Tom Leskinen, Product Development Services

Cristina Petrescu, Public, Healthcare and Welfare.

Annual General Meeting

Tieto Corporation's Annual General Meeting of Shareholders held on 22 March 2016 decided to distribute a dividend of EUR 1.35 per share (normal dividend of EUR 1.10 and additional dividend of EUR 0.25) and discharge the company's officers from liability for the financial year 2015. The meeting decided that the Board of Directors shall consist of eight members and re-elected the Board's current members Kurt Jofs, Sari Pajari, Markku Pohjola, Endre Rangnes, Jonas Synnergren and Lars Wollung. Johanna Lamminen and Harri-Pekka Kaukonen were elected as new members. Markku Pohjola was re-elected as the Chairman of the Board of Directors.

Shares and share-based incentives

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

The subscription period for the 2009 option programme ended on 31 March 2016. Currently, Tieto has no option programmes.

There were changes in the number of Tieto's own shares during the first quarter. On 9 March, a total of 53 402 Tieto treasury shares were transferred as part of the allocations related to the company's Long-Term Incentive Programme 2012–2014. After the transfer of the shares, Tieto's holding was a total of 411 682 own shares, representing 0.6% of the total number of shares and voting rights.

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.

Slow growth in Europe might lead to weakness in the IT services market as well. The company's development is relatively sensitive to changes in the demand from large customers as Tieto's top 10 customers currently account for 30% of its net sales. However, the share has decreased by around four percentage points from 2014.

There might be a risk for potential labour union strike in Sweden. Risk mitigation plans to minimize the potential impact are in place.

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

As is typical of the industry, the large size of individual deals may have a strong effect on growth, and price pressure might lead to weak profitability. Additionally, new technologies, such as cloud computing, drive customer demand towards standardized and less labour-intensive solutions. All these changes might result in the need for continuous restructuring.

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

As is typical of Product Development Services, visibility is limited due to the short order backlog. PDS booked goodwill impairment in 2014 due to the reduction in business volumes and has efficiently adjusted its cost base. Overall, volatility in the operating environment might lead to potential goodwill impairments also going forward.

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

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

Events after the period

Between 1 January 2016 and 31 March 2016, a total of 96 159 Tieto Corporation new shares were subscribed for with the company's stock options 2009C. The shares subscribed for under the stock options were registered in the Trade Register on 13 April 2016. As a result of subscriptions, the number of Tieto shares increased to 74 109 252.

Full-year outlook for 2016

Tieto expects its adjusted¹⁾ full-year operating profit (EBIT) to increase from the previous year's level (EUR 150.8 million in 2015).

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

Auditing

The figures in this report are unaudited.

Financial calendar

31 May 2016	Capital Market Day
Tieto will publish three interim reports in 2016	
26 April	Interim report 1/2016 (8.00 am EET)
22 July	Interim report 2/2016 (8.00 am EET)
25 October	Interim report 3/2016 (8.00 am EET)

Accounting policies 2016

The interim report has been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the EU. The accounting policies adopted are consistent with those used in the annual financial statements for the year ended on 31 December 2015. The accounting policies are described in more detail in the annual financial statements. The standards, amendments and interpretations effective on 1 January 2016 are not material to the Group.

Key figures

	2016 1-3	2015 1-3	2015 1-12
Earnings per share, EUR			
Basic	0.29	0.12	1.23
Diluted	0.29	0.12	1.23
Equity per share, EUR	5.46	5.45	6.57
Return on equity, 12-month rolling, %	25.7	4.5	19.0
Return on capital employed, 12-month rolling, %	27.2	7.7	20.4
Equity ratio, %	38.9	39.6	46.2
Interest-bearing net debt, EUR million	-21.3	-85.9	13.2
Gearing, %	-5.3	-21.5	2.7
Capital expenditure and acquisitions, EUR million	9.4	11.6	136.7

Number of shares

	2016 1-3	2015 1-3	2015 1-12
Outstanding shares, end of period			
Basic	73 601 411	73 247 883	73 544 869
Diluted	73 664 930	73 463 736	73 611 908
Outstanding shares, average			
Basic	73 560 885	73 215 497	73 426 563
Diluted	73 625 716	73 451 489	73 553 478
Company's possession of its own shares			
End of period	411 682	465 084	465 084
Average	451 587	489 646	471 140

Income statement, EUR million

	2016 1–3	2015 1–3	Change %	2015 1–12
Net sales	367.5	365.6	1	1 460.1
Other operating income	4.2	5.0	-16	30.5
Employee benefit expenses	-214.0	-225.1	-5	-828.3
Depreciation, amortization and impairment charges	-13.3	-14.5	-8	-56.6
Other operating expenses	-116.5	-118.3	-2	-484.7
Share of profit from investments accounted for using the equity method	0.4	1.2	-67	4.2
Operating profit (EBIT)	28.3	13.9	104	125.2
Interest and other financial income	0.7	0.4	75	1.9
Interest and other financial expenses	-1.5	-1.1	36	-5.4
Net exchange gains/losses	0.2	-1.0	-120	-2.4
Profit before taxes	27.7	12.2	127	119.3
Income taxes	-6.2	-3.1	100	-28.8
Net profit for the period	21.5	9.1	136	90.5
Net profit for the period attributable to				
Shareholders of the Parent company	21.5	9.1	136	90.5
Non-controlling interest	0.0	0.0	-	0.0
	21.5	9.1	136	90.5
Earnings per share attributable to the shareholders of the Parent company, EUR				
Basic	0.29	0.12	142	1.23
Diluted	0.29	0.12	142	1.23
Statement of comprehensive income, EUR million				
Net profit for the period	21.5	9.1	136	90.5
Items that may be reclassified subsequently to profit or loss				
Translation differences	-1.2	11.3	-	2.3
Cash flow hedges (net of tax)	-0.2	0.4	-150	0.5
Items that will not be reclassified subsequently to profit or loss				
Actuarial gain/loss on post-employment benefit obligations (net of tax)	-3.4	0.0	-	9.5
Total comprehensive income	16.7	20.8	-20	102.8
Total comprehensive income attributable to				
Shareholders of the Parent company	16.7	20.8	-20	102.8
Non-controlling interest	0.0	0.0	-	0.0
	16.7	20.8	-20	102.8

Balance sheet, EUR million

	2016 31 Mar	2015 31 Mar	Change %	2015 31 Dec
Goodwill	385.2	327.0	18	384.9
Other intangible assets	40.1	32.3	24	41.0
Property, plant and equipment	79.9	80.4	-1	83.0
Investments accounted for using the equity method	13.7	15.1	-9	17.2
Deferred tax assets	32.2	29.2	10	31.6
Finance lease receivables	4.1	5.1	-20	4.6
Other interest-bearing receivables	0.1	0.7	-86	0.1
Available-for-sale financial assets	0.7	0.7	0	0.7
Total non-current assets	556.0	490.5	13	563.1
Trade and other receivables	386.4	387.6	0	353.9
Pension benefit assets	4.6	-	-	6.6
Finance lease receivables	3.4	4.7	-28	3.5
Other interest-bearing receivables	0.4	0.2	100	0.4
Current income tax receivables	9.1	2.2	314	2.6
Cash and cash equivalents	144.6	184.8	-22	156.2
Total current assets	548.5	579.5	-5	523.2
Total assets	1 104.5	1 070.0	3	1 086.3
Share capital, share issue premiums and other reserves	121.0	120.9	0	121.2
Share issue based on stock options	0.8	2.4	-67	0.0
Retained earnings	279.8	276.1	1	361.6
Parent shareholders' equity	401.6	399.4	1	482.8
Non-controlling interest	0.1	0.1	0	0.1
Total equity	401.7	399.5	1	482.9
Loans	104.7	100.5	4	105.0
Deferred tax liabilities	27.9	23.1	21	28.7
Provisions	6.2	14.8	-58	6.1
Pension obligations	18.2	23.4	-22	16.7
Other non-current liabilities	0.7	1.9	-63	1.5
Total non-current liabilities	157.7	163.7	-4	158.0
Trade and other payables	488.8	451.8	8	334.6
Current income tax liabilities	11.5	9.2	25	14.9
Provisions	18.2	36.7	-50	22.9
Loans	26.6	9.1	192	73.0
Total current liabilities	545.1	506.8	8	445.4
Total equity and liabilities	1 104.5	1 070.0	3	1 086.3

Net working capital in the balance sheet, EUR million

	2016 31 Mar	2015 31 Mar	Change %	2015 31 Dec
Accounts receivable	267.9	274.7	-2	255.4
Other working capital receivables	117.8	112.4	5	98.3
Working capital receivables included in assets	385.7	387.1	0	353.7
Accounts payable	86.5	82.3	5	78.7
Personnel related accruals	159.8	156.5	2	143.4
Provisions	24.4	51.5	-53	29.0
Other working capital liabilities	135.4	116.4	16	105.0
Working capital liabilities included in liabilities	406.1	406.7	0	356.1
Net working capital in the balance sheet	-20.4	-19.6	4	-2.4

Cash flow, EUR million

	2016 1–3	2015 1–3	2015 1–12
Cash flow from operations			
Net profit	21.5	9.1	90.5
Adjustments			
Depreciation, amortization and impairment charges	13.3	14.5	56.6
Share-based payments	0.7	0.1	1.0
Profit/loss on sale of fixed assets and shares	0.0	0.0	-6.8
Share of profit from investments accounted for using the equity method	-0.4	-1.2	-4.2
Other adjustments	0.6	-1.1	-2.0
Net financial expenses	0.6	1.7	5.9
Income taxes	6.2	3.1	28.8
Change in net working capital	17.8	12.9	-15.0
Cash generated from operations	60.3	39.1	154.8
Net financial expenses paid	-0.8	-0.5	-7.2
Dividends received from investments accounted for using the equity method	3.8	5.4	5.4
Income taxes paid	-16.4	-7.3	-20.4
Net cash flow from operations	46.9	36.7	132.6
Cash flow from investing activities			
Acquisition of Group companies and business operations, net of cash acquired	-1.4	-	-73.7
Capital expenditures	-9.4	-11.6	-43.7
Disposal of Group companies and business operations, net of cash disposed	0.0	-	8.3
Sales of fixed assets	0.0	0.1	0.6
Sales of available-for-sale financial assets	-	-	0.5
Change in loan receivables	0.7	0.5	2.7
Net cash used in investing activities	-10.1	-11.0	-105.3
Cash flow from financing activities			
Dividends paid	-	-	-95.2
Exercise of stock options	0.0	0.5	3.6
Payments of finance lease liabilities	-0.3	-0.2	-0.3
Change in interest-bearing liabilities	-46.4	-2.9	57.9
Net cash used in financing activities	-46.7	-2.6	-34.0
Change in cash and cash equivalents	-9.9	23.1	-6.7
Cash and cash equivalents at the beginning of period	156.2	160.6	160.6
Foreign exchange differences	-1.7	1.1	2.3
Change in cash and cash equivalents	-9.9	23.1	-6.7
Cash and cash equivalents at the end of period	144.6	184.8	156.2

Statement of changes in shareholders' equity, EUR million

	Parent shareholders' equity									Non- control- ling inter- est	Total equity
	Share capi- tal	Share issue premi- ums and other re- ser- ves	Share issue based on stock op- tions	Own shares	Trans- lation differ- ences	Cash flow hedges	In- vest- ed unre- strict- ed equity re- serve	Re- tain- ed earn- ings	Total		
At 31 Dec 2014	76.6	43.9	0.5	-11.6	-51.0	-0.3	8.5	404.5	471.1	0.1	471.2
Comprehensive income											
Net profit for the period								9.1	9.1	0.0	9.1
Other comprehensive income											
Actuarial loss on post-employment benefit obligations (net of tax)									0.0		0.0
Translation difference		0.4			10.4				0.5	11.3	11.3
Cash flow hedges (net of tax)						0.4			0.4		0.4
Total comprehensive income		0.4			10.4	0.4		9.6	20.8	0.0	20.8
Transactions with owners											
Share-based payments recognized against equity								0.3	0.3		0.3
Dividend								-95.2	-95.2		-95.2
Share subscriptions based on stock options			-0.5				0.5		0.0		0.0
Share subscriptions based on stock options, not yet registered			2.4						2.4		2.4
Non-controlling interest											0.0
Total transactions with owners	0.0	0.0	1.9				0.5	-94.9	-92.5	0.0	-92.5
Impact on investments accounted for using the equity method									0.0	0.0	0.0
At 31 Mar 2015	76.6	44.3	2.4	-11.6	-40.6	0.1	9.0	319.2	399.4	0.1	399.5

	Parent shareholders' equity									Non-controlling interest	Total equity
	Share capital	Share issue premiums and other reserves	Share issue based on stock options	Own shares	Translation differences	Cash flow hedges	Invested unrestricted equity reserve	Retained earnings	Total		
At 31 Dec 2015	76.6	44.6	0.0	-11.6	-49.2	0.2	12.1	410.1	482.8	0.1	482.9
Comprehensive income											
Net profit for the period								21.5	21.5	0.0	21.5
Other comprehensive income											
Actuarial loss on post-employment benefit obligations (net of tax)								-3.4	-3.4		-3.4
Translation difference		-0.2			0.6			-1.6	-1.2		-1.2
Cash flow hedges (net of tax)						-0.2			-0.2		-0.2
Total comprehensive income		-0.2			0.6	-0.2		16.5	16.7	0.0	16.7
Transactions with owners											
Share-based payments recognized against equity								0.7	0.7		0.7
Dividend								-99.4	-99.4		-99.4
Share subscriptions based on stock options			0.0				0.0		0.0		0.0
Share subscriptions based on stock options, not yet registered			0.8						0.8		0.8
Non-controlling interest											0.0
Total transactions with owners	0.0	0.0	0.8				0.0	-98.7	-97.9	0.0	-97.9
Impact on investments accounted for using the equity method											
								0.0	0.0		0.0
At 31 Mar 2016	76.6	44.4	0.8	-11.6	-48.6	0.0	12.1	327.9	401.6	0.1	401.7

Segment information

Customer sales by service line, EUR million

	2016 1–3	2015 1–3	Change %	2015 1–12
Managed Services	129	126	2	511
Consulting and System Integration	102	99	3	398
Industry Products	107	94	13	410
Product Development Services	29	47	-37	142
Group total	367	366	1	1 460

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

	2016 1–3	Change %	Share %	2015 1–3	Share %	2015 1–12
Finland	166	-2	45	170	47	669
Sweden	140	0	38	140	38	553
Other	61	10	17	56	15	238
Group total	367	1	100	366	100	1 460

In Finland, IT services sales grew by 1% in the first quarter.

In Sweden, sales in local currencies remained at the previous year's level. IT services' growth was 8% in local currencies.

In Norway, growth was 28% in local currencies.

Customer sales by industry group, EUR million

	2016 1–3	2015 1–3	Change %	2015 1–12
Financial Services	88	84	5	347
Manufacturing, Retail and Logistics	79	78	2	307
Public, Healthcare and Welfare	118	101	17	439
Telecom, Media and Energy	53	57	-7	227
Product Development Services	29	47	-37	142
Group total	367	366	1	1 460

Customer sales to the telecom sector were EUR 60 (80) million during January–March.

Revenues derived from any single external customer during January–March 2016 or 2015 did not exceed the 10% level of the total net sales of the Group.

Operating profit (EBIT) by service line, EUR million

	2016	2015	Change	2015
	1-3	1-3	%	1-12
Managed Services	10.8	-8.3	229.8	29.9
Consulting and System Integration	5.6	8.2	-31.3	30.0
Industry Products	13.8	12.6	10.0	72.5
Product Development Services	2.6	6.5	-59.8	15.6
Support Functions and Global Management	-4.7	-5.0	7.0	-22.8
Operating profit (EBIT)	28.3	13.9	103.6	125.2

Operating margin (EBIT) by service line, %

	2016	2015	Change	2015
	1-3	1-3	pp	1-12
Managed Services	8.4	-6.6	15.0	5.9
Consulting and System Integration	5.5	8.3	-2.7	7.5
Industry Products	13.0	13.3	-0.3	17.7
Product Development Services	9.0	14.0	-5.0	11.0
Operating margin (EBIT)	7.7	3.8	3.9	8.6

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

	2016	2015	Change	2015
	1-3	1-3	%	1-12
Managed Services	11.3	4.6	145.5	48.5
Consulting and System Integration	7.0	10.8	-35.0	36.0
Industry Products	14.1	12.7	11.2	68.5
Product Development Services	2.4	6.5	-62.6	14.7
Support Functions and Global Management	-3.4	-3.9	12.3	-16.8
Adjusted operating profit (EBIT)	31.5	30.7	2.6	150.8

Adjusted operating margin (EBIT) by service line, %

	2016	2015	Change	2015
	1-3	1-3	pp	1-12
Managed Services	8.7	3.6	5.1	9.5
Consulting and System Integration	6.8	10.8	-4.0	9.0
Industry Products	13.3	13.4	-0.2	16.7
Product Development Services	8.4	14.0	-5.6	10.3
Adjusted operating margin (EBIT)	8.6	8.4	0.2	10.3

Personnel by service line

	End of period				Average			
	2016	Change	Share	2015	2015	2016	2015	
	1-3	%	%	1-3	1-12	1-3	1-3	
Managed Services	3 084	-8	23	3 359	3 024	3 067	3 351	
Consulting and System Integration	4 320	5	33	4 117	4 258	4 286	4 081	
Industry Products	3 546	13	27	3 150	3 449	3 554	3 148	
Product Development Services	1 228	-27	9	1 671	1 279	1 256	1 842	
Service lines total	12 179	-1	92	12 297	12 011	12 163	12 422	
Industry groups	371	-21	3	471	439	369	462	
Support Functions and Global Management	650	-5	5	688	634	640	696	
Group total	13 200	-2	100	13 456	13 083	13 173	13 580	

Personnel by country

	End of period				Average			
	2016	Change	Share	2015	2015	2016	2015	
	1-3	%	%	1-3	1-12	1-3	1-3	
Finland	3 585	-12	27	4 095	3 612	3 597	4 117	
Sweden	2 516	0	19	2 524	2 490	2 514	2 538	
India	2 311	12	18	2 063	2 230	2 280	2 016	
Czech Republic	2 049	-2	16	2 084	2 025	2 043	2 088	
Latvia	667	-5	5	699	678	673	694	
Norway	605	44	5	419	600	606	421	
Poland	404	-12	3	457	421	407	478	
China	265	-19	2	327	258	264	349	
Estonia	226	56	2	144	196	221	135	
Austria	124	4	1	119	124	122	119	
Lithuania	121	-2	1	124	115	117	123	
Other	328	-18	2	401	335	329	501	
Group total	13 200	-2	100	13 456	13 083	13 173	13 580	
Onshore countries	7 041	-4	53	7 332	7 045	7 050	7 370	
Offshore countries	6 159	1	47	6 124	6 039	6 122	6 210	
Group total	13 200	-2	100	13 456	13 083	13 173	13 580	

Non-current assets by country, EUR million

	2016 31 Mar	2015 31 Mar	Change %	2015 31 dec
Finland	78.1	82.2	-5	81.7
Sweden	24.6	24.9	-1	24.3
Other	17.3	5.5	212	18.0
Total non-current assets	120.0	112.6	7	124.0

Goodwill is allocated to the Cash Generating Units, which include several countries and therefore goodwill is not included in the country specific non-current assets shown above.

Depreciation by service line, EUR million

	2016	2015	Change	2015
	1-3	1-3	%	1-12
Managed Services	11.0	11.9	-8	47.2
Consulting and System Integration	0.2	0.2	-17	0.8
Industry Products	0.2	0.1	99	0.7
Product Development Services	-0.1	0.1	-188	0.2
Support Functions and Global Management	1.3	2.0	-35	6.6
Group total	12.6	14.3	-12	55.4

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

	2016	2015	Change	2015
	1-3	1-3	%	1-12
Managed Services	-	-	-	-
Consulting and System Integration	0.1	0.0	123	0.2
Industry Products	0.6	0.1	719	1.0
Product Development Services	-	-	-	-
Support Functions and Global Management	-	-	-	-
Group total	0.7	0.1	469	1.2

Commitments and contingencies, EUR million

	2016 31 Mar	2015 31 Dec
For Tieto obligations		
Guarantees		
Performance guarantees	13.7	10.1
Lease guarantees	9.3	9.1
Other	3.8	4.3
Other Tieto obligations		
Rent commitments due in one year	42.6	41.4
Rent commitments due in 1–5 years	91.3	100.9
Rent commitments due after 5 years	18.5	21.2
Operating lease commitments due in one year	8.8	8.2
Operating lease commitments due in 1–5 years	10.5	12.0
Operating lease commitments due after 5 years	0.7	0.7
Commitments to purchase assets	7.3	8.5
On behalf of joint ventures	-	-
On behalf of others		
Guarantees	0.3	0.4

Derivatives, EUR million

Notional amounts of derivatives

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

	2016 31 Mar	2015 31 Dec
Foreign exchange forward contracts	309.6	294.5
Forward contracts outside hedge accounting	306.3	281.9
Forward contracts within hedge accounting	3.3	12.6
Electricity price futures contracts	0.4	0.3

Fair values of derivatives

The net fair values of derivative financial instruments at the balance sheet date	2016 31 Mar	2015 31 Dec
Foreign exchange forward contracts	0.7	0.3
Electricity price futures contracts	-0.1	-0.1

Derivatives are used for economic hedging purposes only.

Gross positive fair values of derivatives	2016 31 Mar	2015 31 Dec
Foreign exchange forward contracts	2.4	1.6
Forward contracts outside hedge accounting	2.3	1.4
Forward contracts within hedge accounting ¹⁾	0.1	0.2
Electricity price futures contracts	-	-

Gross negative fair values of derivatives	2016 31 Mar	2015 31 Dec
Foreign exchange forward contracts	-1.7	-1.3
Forward contracts outside hedge accounting	-1.7	-1.3
Forward contracts within hedge accounting ¹⁾	-	-
Electricity price futures contracts	-0.1	-0.1

¹⁾ Forward contracts within hedge accounting (net)	0.1	0.2
The amount recognized in equity	0.1	0.2
Net periodic interest rate difference recognized in interest income/expenses	-	-

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

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next month. Gains and losses, recognized in the hedging reserve in equity (note Other reserves) on forward foreign exchange contracts as of 31 March 2016 amounted to net EUR 0.1 million (EUR 0.2 in 31 December 2015). These are recognized in the income statement in the same period or periods during which the hedged forecast transactions affect the income statement. This is usually within 12 months of the end of the reporting period. The hedged cash flows are expected to expire monthly within next month.

The efficient portion of cash flow hedges recognized in net sales at 31 March 2016 amounted to a gain of EUR 0.2 million (EUR 0.6 million on 31 December 2015) and a loss of EUR 0.0 million (EUR 0.2 million on 31 December 2015) including the interest rate difference.

The inefficient portion recognized in the other operating income that arises from cash flow hedges amounts to a gain of EUR 0.0 million at 31 March 2016 (EUR 0.0 million gain on 31 December 2015). The inefficient portion recognized in other operating expenses that arises from cash flow hedges amounts to a loss of EUR 0.0 million at 31 March 2015 (EUR 0.0 million on 31 December 2015).

Other reserves

Cash flow hedges

EUR million	Hedging reserve
Balance at 1 Jan 2015	-0.3
Fair value gains in year	1.1
Fair value losses in year	-0.5
Tax on fair value gains	0.2
Tax on fair value losses	-0.3
Balance at 31 Dec 2015	0.2
Balance at 1 Jan 2016	0.2
Fair value gains in year	-
Fair value losses in year	-0.2
Tax on fair value gains	0.1
Tax on fair value losses	-
Balance at 31 Mar 2016	0.1

Fair value measurement of financial assets and liabilities

EUR million

31 Mar 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	2.4	-	2.4
Available-for-sale investments	-	-	0.7	0.7
Financial liabilities at fair value through profit or loss				
Derivatives	-	1.8	-	1.8

EUR million

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

Available-for-sale investments' fair value measurement is based on their initial value. The fair market value cannot be reliably estimated, due to lack of proper market for the assets.

QUARTERLY FIGURES

Key figures

	2016 1-3	2015 10-12	2015 7-9	2015 4-6	2015 1-3
Earnings per share, EUR					
Basic	0.29	0.47	0.40	0.24	0.12
Diluted	0.29	0.47	0.40	0.24	0.12
Equity per share, EUR	5.46	6.57	5.90	5.69	5.45
Return on equity, 12-month rolling, %	25.7	19.0	13.8	4.5	4.5
Return on capital employed, 12-month rolling, %	27.2	20.4	14.8	7.5	7.7
Equity ratio, %	38.9	46.2	44.3	44.8	39.6
Interest-bearing net debt, EUR million	-21.3	13.2	57.7	5.3	-85.9
Gearing, %	-5.3	2.7	13.3	1.3	-21.5
Capital expenditure and acquisitions, EUR million	9.4	32.7	81.8	10.6	11.6

Income statement, EUR million

	2016 1-3	2015 10-12	2015 7-9	2015 4-6	2015 1-3
Net sales	367.5	395.6	335.1	363.8	365.6
Other operating income	4.2	10.5	10.2	4.8	5.0
Employee benefit expenses	-214.0	-216.6	-174.4	-212.2	-225.1
Depreciation, amortization and impairment charges	-13.3	-13.7	-14.0	-14.4	-14.5
Other operating expenses	-116.5	-130.1	-116.3	-120.0	-118.3
Share of profit from investments accounted for using the equity method	0.4	1.1	0.8	1.1	1.2
Operating profit (EBIT)	28.3	46.8	41.4	23.1	13.9
Financial income and expenses	-0.6	-1.0	-1.9	-1.3	-1.7
Profit before taxes	27.7	45.8	39.5	21.8	12.2
Income taxes	-6.2	-11.4	-9.9	-4.4	-3.1
Net profit for the period	21.5	34.4	29.6	17.4	9.1

Balance sheet, EUR million

	2016 31 Mar	2015 31 Dec	2015 30 Sep	2015 30 Jun	2015 31 Mar
Goodwill	385.2	384.9	362.9	327.5	327.0
Other intangible assets	40.1	41.0	45.8	30.4	32.3
Property, plant and equipment	79.9	83.0	81.8	78.3	80.4
Investments accounted for using the equity method	13.7	17.2	16.0	16.3	15.1
Other non-current assets	37.1	37.0	41.6	33.3	35.7
Total non-current assets	556.0	563.1	548.1	485.8	490.5
Trade receivables and other current assets	403.9	367.0	364.5	393.3	394.7
Cash and cash equivalents	144.6	156.2	115.9	112.2	184.8
Total current assets	548.5	523.2	480.4	505.5	579.5
Total assets	1 104.5	1 086.3	1 028.5	991.3	1 070.0
Total equity	401.7	482.9	433.5	418.2	399.5
Non-current loans	104.7	105.0	105.9	100.2	100.5
Other non-current liabilities	53.0	53.0	64.6	59.7	63.2
Total non-current liabilities	157.7	158.0	170.5	159.9	163.7
Trade payables and other current liabilities	500.3	349.5	322.9	352.3	461.0
Provisions	18.2	22.9	24.3	33.4	36.7
Current loans	26.6	73.0	77.3	27.5	9.1
Total current liabilities	545.1	445.4	424.5	413.2	506.8
Total equity and liabilities	1 104.5	1 086.3	1 028.5	991.3	1 070.0

Cash flow, EUR million

	2016 1–3	2015 10–12	2015 7–9	2015 4–6	2015 1–3
Cash flow from operations					
Net profit	21.5	34.4	29.6	17.4	9.1
Adjustments	21.0	22.6	19.0	20.6	17.1
Change in net working capital	17.8	15.0	-26.7	-16.2	12.9
Cash generated from operations	60.3	72.0	21.9	21.8	39.1
Net financial expenses paid	-0.8	-0.6	-3.0	-3.1	-0.5
Dividends received from investments accounted for using the equity method	3.8	-	-	-	5.4
Income taxes paid	-16.4	-4.3	-2.5	-6.3	-7.3
Net cash flow from operations	46.9	67.1	16.4	12.4	36.7
Net cash used in investing activities	-10.1	-21.5	-62.7	-10.1	-11.0
Net cash used in financing activities	-46.7	-5.3	48.2	-74.3	-2.6
Change in cash and cash equivalents	-9.9	40.3	1.9	-72.0	23.1
Cash and cash equivalents at the beginning of period	156.2	115.9	112.2	184.8	160.6
Foreign exchange differences	-1.7	0.0	1.8	-0.6	1.1
Change in cash and cash equivalents	-9.9	40.3	1.9	-72.0	23.1
Cash and cash equivalents at the end of period	144.6	156.2	115.9	112.2	184.8

QUARTERLY FIGURES BY SEGMENTS

Customer sales by service line, EUR million

	2016 1-3	2015 10-12	2015 7-9	2015 4-6	2015 1-3
Managed Services	129	132	122	131	126
Consulting and System Integration	102	109	88	101	99
Industry Products	107	121	96	98	94
Product Development Services	29	33	29	33	47
Group total	367	396	335	364	366

Customer sales by industry group, EUR million

	2016 1-3	2015 10-12	2015 7-9	2015 4-6	2015 1-3
Financial Services	88	92	83	88	84
Manufacturing, Retail and Logistics	79	78	73	77	78
Public, Healthcare and Welfare	118	133	98	107	101
Telecom, Media and Energy	53	59	53	58	57
Product Development Services	29	33	29	33	47
Group total	367	396	335	364	366

Operating profit (EBIT) by service line, EUR million

	2016 1-3	2015 10-12	2015 7-9	2015 4-6	2015 1-3
Managed Services	10.8	18.4	16.7	3.1	-8.3
Consulting and System Integration	5.6	8.8	4.4	8.5	8.2
Industry Products	13.8	25.2	24.0	10.8	12.6
Product Development Services	2.6	2.8	0.6	5.7	6.5
Support Functions and Global Management	-4.7	-8.3	-4.2	-5.0	-5.0
Operating profit (EBIT)	28.3	46.8	41.4	23.1	13.9

Operating margin (EBIT) by service line, %

	2016 1-3	2015 10-12	2015 7-9	2015 4-6	2015 1-3
Managed Services	8.4	13.9	13.7	2.4	-6.6
Consulting and System Integration	5.5	8.1	5.0	8.4	8.3
Industry Products	13.0	20.8	24.9	11.0	13.3
Product Development Services	9.0	8.4	2.1	17.1	14.0
Operating margin (EBIT)	7.7	11.8	12.4	6.3	3.8

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

	2016 1-3	2015 10-12	2015 7-9	2015 4-6	2015 1-3
Managed Services	11.3	17.2	16.8	9.9	4.6
Consulting and System Integration	7.0	11.3	5.3	8.7	10.8
Industry Products	14.1	25.8	18.0	12.0	12.7
Product Development Services	2.4	3.1	1.8	3.2	6.5
Support Functions and Global Management	-3.4	-6.0	-3.0	-3.6	-3.9
Adjusted operating profit (EBIT)	31.5	51.4	38.6	30.1	30.7

Adjusted operating margin (EBIT) by service line, %

	2016 1-3	2015 10-12	2015 7-9	2015 4-6	2015 1-3
Managed Services	8.7	13.0	13.8	7.6	3.6
Consulting and System Integration	6.8	10.3	5.9	8.6	10.8
Industry Products	13.3	21.4	18.7	12.2	13.4
Product Development Services	8.4	9.4	6.2	9.6	14.0
Adjusted operating margin (EBIT)	8.6	13.0	11.5	8.3	8.4

Major shareholders on 31 March 2016

	Shares	%
1 Cevian Capital	11 073 614	15.0
2 Solidium Oy	7 415 418	10.0
3 Silchester International Investors LLP *)	7 401 027	10.0
4 Swedbank Robur fonder	1 692 207	2.3
5 Ilmarinen Mutual Pension Insurance Co.	1 258 840	1.7
6 The State Pension fund	823 000	1.1
7 Evli funds	821 291	1.1
8 Nordea funds	568 083	0.8
9 Svenska litteratursällskapet i Finland r.f.	541 345	0.7
10 Etera Mutual Pension Insurance Co.	540 809	0.7
Top 10 shareholders total	32 135 634	43.4
- of which nominee registered	9 093 234	12.3
Nominee registered other	26 842 266	36.3
Others	15 035 193	20.3
Total	74 013 093	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:

Lasse Heinonen, CFO, tel. +358 2072 66329, +358 50 393 4950, [lasse.heinonen \(at\) tieto.com](mailto:lasse.heinonen@tieto.com)

Tanja Lounevirta, Head of Investor Relations, tel. +358 2072 71725, +358 50 321 7510, [tanja.lounevirta \(at\) tieto.com](mailto:tanja.lounevirta@tieto.com)

Press conference for analysts and media will be held on Tuesday, April 26, at Tieto's premises in Stockholm, address: Fjärde Bassängvägen 15, at 11.00 am EET (10.00 am CET, 9.00 am UK time). The results will be presented in English by Kimmo Alkio, President and CEO, and Lasse Heinonen, CFO.

The conference will be webcasted and can be viewed live on Tieto's website. To join the conference, attendees need Adobe Flash plugin version 10.1.0 or newer. The meeting participants can also join a telephone conference that will be held at the same time. The telephone conference details can be found below.

Telephone conference numbers

Finland: +358 (0)9 7479 0361

Sweden: +46 (0)8 5033 6574

UK: +44 (0)203 043 2002

US: +1 719 325 2131

Conference code: 6304748

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

Tieto publishes financial information in English and Finnish.

TIETO CORPORATION

DISTRIBUTION

NASDAQ Helsinki

NASDAQ Stockholm

Principal Media

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 13,000 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

Tieto Corporation

Business ID: 0101138-5

Aku Korhosen tie 2-6
PO Box 38
FI-00441 HELSINKI, FINLAND
Tel +358 207 2010
Registered office: Helsinki

E-mail: [ir \(at\) tieto.com](mailto:ir@tieto.com)
www.tieto.com

