

Q2 2018

Interim Report

January–June

Strong growth – profit at the previous year's level

- Growth in local currencies 8%, organically 5%
- Profitability development good in Technology Services and Modernization, Business Consulting and Product Development Services
- Higher investments in technology renewals in Industry Solutions impact second-quarter profit
- Currency impact remains negative

tieto

Key figures for the second quarter

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

IT services

- Sales growth totalled 4.6%, sales in local currencies up by 7.4%
- Adjusted operating profit amounted to EUR 31.9 (33.0) million, 8.6% (9.3) of sales

The Group

- Sales growth totalled 4.8%, sales in local currencies up by 7.9%
- Adjusted operating profit amounted to EUR 34.8 (35.5) million, 8.6% (9.2) 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.

	4–6/2018	4–6/2017	1–6/2018	1–6/2017
Net sales, EUR million	404.1	385.6	810.5	778.8
Change, %	4.8	1.2	4.1	4.0
Change in local currencies, %	7.9	2.8	7.1	4.8
Operating profit (EBITA), EUR million	36.4	32.0	77.7	57.7
Operating margin (EBITA), %	9.0	8.3	9.6	7.4
Operating profit (EBIT), EUR million ¹⁾	31.3	28.1	68.6	50.2
Operating margin (EBIT), % ¹⁾	7.7	7.3	8.5	6.4
Adjusted ^{1) 2)} operating profit (EBIT), EUR million	34.8	35.5	71.4	71.1
Adjusted ^{1) 2)} operating margin (EBIT), %	8.6	9.2	8.8	9.1
Profit after taxes, EUR million	24.7	20.9	54.6	36.7
EPS, EUR	0.33	0.28	0.74	0.50
Net cash flow from operations, EUR million	12.3	-6.1	73.8	73.7
Return on equity, 12-month rolling, %	30.5	23.6	30.5	23.6
Return on capital employed, 12-month rolling, %	24.1	21.0	24.1	21.0
Capital expenditure, EUR million	11.4	21.0	19.5	30.3
Acquisitions, EUR million	2.3	-	12.2	-
Interest-bearing net debt, EUR million	209.2	164.6	209.2	164.6
Net debt/EBITDA	1.0	0.9	1.0	0.9
Order backlog	1 731	1 817	1 731	1 817
Personnel on 30 June	14 956	13 754	14 956	13 754

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

²⁾ adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items (see page 38)

Full-year outlook for 2018 unchanged

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

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

CEO's comment

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

"We are happy to deliver strong growth during the second quarter. The organic growth of all our service lines also outpaced the market – with a broader portfolio that is starting to deliver sustainable growth. Operating profit remained at the previous year's level, while the development was twofold. Most of our businesses had strong overall performance, while our investments in Industry Solutions are impacting short-term profits. Our investments play an important part in our growth agenda and in ensuring our position as customers' first choice for business renewal.

In our Industry Solutions' software business we are currently carrying out a technology and business model renewal in several industries simultaneously. We intend to take advantage of the growth opportunities by introducing the latest cloud-based technologies, open ecosystems and APIs, and new business models. I remain confident that our investments in the Financial Services, Healthcare and Utility sectors will provide strong future value – this has also been proven by our recent success with customers, such as a major Nordic bank within the Payments segment.

In addition to driving our continuous business acceleration, we are pleased to participate in the broader society-wide dialogue on the future of work – and the future of technology. Our commitment to promoting equal opportunity and continuous learning provides significant additional meaning to our employees worldwide. This combination of technology-based innovation, social contribution and co-innovation with our customers will drive greater value for society and our customers."

IT market development

- Customers partner with an increasing number of IT service providers, reflecting the high speed of digitalization, and increasingly need support for managing complexity of ecosystems. As a result, software-based solutions, technology consultancy and integration and management of applications are in higher demand.
- Public cloud adoption is accelerating while the market in total continues to be driven by multicloud strategies integrating private and public clouds.
- Cyber threats continue to be among the top risks for enterprises. Accordingly, Tieto's Nordic clients are increasing their focus on security.

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, blockchain and IoT 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.

There is considerable interest in the market for establishing new business networks utilizing distributed ledger technology and pursuing opportunities in various domains. These include, for example, supply chain, digital ownership and digital identity. With the recently 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. Tieto's Blockchain Solutions has developed the world's first blockchain technology based business network that enables a fully digital establishment of a limited liability company. Blockchains also enable organizations to create a fully digital identity for new companies.

Outsourcing activity has remained good while the duration and committed values of contracts are decreasing. Currently around 20–25% of global infrastructure services are represented by cloud, predominantly private cloud. 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. 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%

Tieto's cloud portfolio, mainly comprising the company's private cloud offerings, has contributed to over 20% growth of cloud services. Tieto provides with public cloud services through its OneCloud solution. 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 and there is good demand to support customers in their services integration and managing various ecosystems and technology stacks. 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.

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, the digital transformation continues. Compliance with new regulations, open banking digitalization and real-time payments are driving fundamental changes in the sector. In the Payments area, there is strong interest in Tieto's instant payments solutions as well as its cash management solution, Virtual Account Management (VAM). 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 cost inflation pressures across the Nordic countries. In infrastructure services, price pressure has remained strong and there is a clear trend for demand to shift towards the public cloud.
- In the **public** sector, the digitalization of services and processes will continue with efficiency and citizen experience as key drivers. High demand for consulting services and system administration is attributable to the fact that many customers are experiencing a shortage of skillful competences. 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. All the Nordic countries are planning ambitious large-scale projects to enhance eHealth. The prevailing trend is to move towards integrated healthcare and welfare systems supporting seamless care 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.
- The Nordic **manufacturing** sector is experiencing a shift from traditional production and distribution models to a more service-driven business model, and clients are seeking ways to adapt their ways of working accordingly. This is leading to the renewal of core business processes and systems as well as increased investments in intelligent data-driven solutions. At the same time, there is a continuous focus on efficiency improvements. The key factors behind to this change are the digitalization of customer experience, ERP, intelligent analytics driven by sensors and cognitive automation.
- In the **forest and paper** sector, 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 Smart Manufacturing using IoT, advanced robotics and analytics.
- In the **retail and logistics** sector, enterprises are investing in new digital commerce, marketing and payment capabilities to be able to provide a seamless customer experience in all interaction across different touchpoints. In logistics, smart turnkey delivery solutions and new legislation supporting peer-to-peer logistics solutions are poised to revolutionize last mile deliveries in the Nordics, particularly in urban areas. It is anticipated that globally leading companies entering the Nordic countries will increase competition in the retail sectors while creating further opportunities for logistics providers.
- The **energy** utility market is going through many changes, mainly driven by regulatory requirements. Energy companies will have to become more sustainable and competition in the market will increase. Energy companies also need to make it easier for consumers to better understand their individual energy consumption. The Advanced Meter Infrastructure market is preparing for the second generation of Smart Meters, helping consumers increase awareness of their energy consumption. In the oil & gas market, the market for new development projects is experiencing a slight recovery and demand for solutions that target increased productivity is improving.

- In the **telecom** sector, new opportunities based on 5G will enable telecom providers to diversify into new value added services and provide key platforms for IoT- and cognitive automation-based innovations. This will be leveraged by the **media** sector to provide platforms for individual media creators, original data-driven interactive content and augmented reality-driven targeted advertisements.

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 integrated the company's business consulting and implementation capabilities more tightly as from 1 April.

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.

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. Additionally, the acquisitions of Petrostreamz in the oil and gas segment and NSEC in the security segment, both concluded in 2018, will accelerate growth.

Growth businesses

In 2018, Tieto will continue to invest in accelerating growth based on selected growth businesses. The focus is on the following solutions and services:

- Selected industry solutions with aggregated annual sales of around EUR 400 million in 2017
 - Lifecare (Healthcare and welfare)
 - Case Management (Public sector)
 - Credit solutions (Financial services)
 - Payments (Financial services)
 - Hydrocarbon Management (Oil and gas segment)
 - Production Excellence (Manufacturing sector)
 - SmartUtilities (Energy)
- Selected growth services with annual sales of around EUR 160 million in 2017
 - Data-Driven Businesses – reported within Industry Solutions
 - Cloud services (annual sales close to EUR 110 million¹⁾)
 - Customer Experience Management (annual sales close to EUR 40 million)
 - Security Services (annual sales EUR 10 million).

In the first half, sales of the growth businesses increased by around 8% in local currencies, comprising growth of 4% in the selected industry solutions and 17% in selected growth services.

Tieto's cloud services were the strongest growing area. In the first half, cloud services posted growth of 21% in local currencies¹⁾. There is strong interest in migrating from current environments to the OneCloud solution, which combines private and public clouds. Tieto's Public Cloud Programme aims to ensure the company's leading position as a cloud service provider for both application renewal and infrastructure optimization.

Customer Experience Management (CEM) posted growth of 11% in local currencies in the first half. There is an increasing need for partners that can support customers with holistic agile transformations. The focus has been on a next-generation customer experience solution, Tieto CX Cloud, built on new microservices architecture combining business knowledge, design, software development and rapid deployment. Tieto's offering differentiates the company from its competition and there are several customer deliveries ongoing. Additionally, the focus is on Tieto's Customer Interaction Engine, which helps clients harness the full benefit of data and real-time analytics.

Closing the NSEC acquisition in May further strengthened Tieto's cyber security capabilities and added to the company's security portfolio, including the introduction of a fully Nordic Security Operations Center. Demand for security services is good, due to both GDPR and customers' aspiration to increase cloud usage. Although there is good momentum in the market, many sales cases were postponed to the second half of 2018. First-half sales in local

currencies were down by 6%. It is expected that Security Services will experience accelerated growth in the second half of 2018. The merger of NSEC offerings is expected to help Tieto become one of the leading security services providers in the Nordics.

Investments have been stepped up in Data-Driven Businesses and there are several artificial intelligence-related projects for diverse uses ongoing across industries. The focus has also been on driving scale for solutions; in the second quarter, solutions such as Intelligent Wellbeing and Empathic Building contributed to growth. Additionally, Tieto's Digital Data Platform (Platform as a Service) solution contributed to significant growth of this business. The Digital Data Platform that processes massive amounts of data scattered in several sources, and has been well received by customers in a number of industries. Tieto together with its clients has achieved good results, for example, from combining data from healthcare, social welfare and education segments with a view to preventing social exclusion.

In its Industry Solutions' software businesses, Tieto is investing to drive longer-term growth and profitability. Many of these businesses are undergoing significant technological and architectural change. The company believes in building on its expertise in the selected industries to achieve a strong position in these market segments. These strengths combined with the renewal initiatives are expected to provide accelerated longer-term growth and profitability.

Key Industry Solutions-related investments include the Payments solution and Healthcare Information System as well as SmartUtilities, Tieto's solution for the energy utility segment. The Payment solutions continue to expand its customer base, including a major win with a large Nordic bank for the recently launched renewed Virtual Account Management. SmartUtilities is expected to be in full production in 2019 while initial deployments will take place during the second half of 2018. The Healthcare Information System, included in Tieto's Lifecare solution suite, has been released to the market and further releases will follow during the second half of 2018 and during 2019.

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.

The acquisition of Avega Group AB in December 2017 affects 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 have been concluded in 2018. On the other hand, Tieto divested its ProArc unit, previously part of Software Innovation. The unit is focused mainly on technical document management 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
- efficiency programme, including automation and industrialization in service deliveries
- continued focus on competitive cost structure
- salary inflation
- currency fluctuations.

In relation to the abovementioned investments in Industry Solutions, workload extensions in large-scale renewals may occur and related prolongations in development cycles postpone revenues. At the same time, prolongations result in further development costs for the new software and require maintaining the existing platforms longer than originally planned. In this type of technology renewal, a period of lower profitability is experienced while performance returns to the desired level once the new software adoption takes place. Several of Tieto's industry solutions are undergoing this type of technological and architectural change. Due to this, offering development costs in Industry Solutions were up by EUR 4 million in the first half, and subcontracting costs by EUR 1 million. Key launches in 2018 are expected to contribute to improved performance towards the year end.

At the Group level, full-year offering development costs are anticipated to remain at around 5% of Group sales.

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

Actions related to the efficiency programme initiated in 2017 have been completed. Most of the expected gross savings of around EUR 20 million for 2018 materialized during the first half of the year. On the other hand, Tieto recruited close to 600 new employees in IT services in the first half, mainly in new competence areas.

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

At the annual level, Tieto anticipates positive growth and profitability development to continue while financial development is anticipated to be negatively affected by currency fluctuations in the full year. Based on June-average rates, the impact on full-year net sales is close to EUR 43 million and on profit around EUR 8 million.

Financial performance in April–June

Second-quarter net sales increased by 4.8% to EUR 404.1 (385.6) million, growth of 7.9% in local currencies. Acquisitions added EUR 12 million in sales, mainly affecting Business Consulting and Implementation. Additionally, the number of working days supported growth. The second quarter included one additional working day compared with the previous year's corresponding quarter. Currency fluctuations had a negative impact of EUR 12 million on sales, mainly due to the weaker Swedish Krona.

Second-quarter operating profit (EBIT) amounted to EUR 31.3 (28.1) million, representing a margin of 7.7% (7.3). Adjusted¹⁾ operating profit stood at EUR 34.8 (35.5) million, or 8.6% (9.2) of net sales. Further details on second-quarter adjustments are available in a table on page 38. Profitability improved in all service lines except Industry Solutions, which was impacted by continued renewal in several software businesses. At the Group-level, offering development costs were up by EUR 2 million. Additionally, currency changes had a negative impact of around EUR 2 million on operating profit, and profitability was affected by salary inflation.

Depreciation and amortization amounted to EUR 15.2 (13.6) million, including EUR 1.4 (1.0) million in amortization of acquisition-related intangible assets. Net financial expenses stood at EUR 0.7 (0.6) million in the second quarter. Net interest expenses were EUR 0.6 (0.5) million and net gains from foreign exchange transactions EUR 0.1 (0.2) million. Other financial income and expenses amounted to EUR -0.2 (-0.3) million.

Earnings per share (EPS) totalled EUR 0.33 (0.28). Adjusted¹⁾ earnings per share amounted to EUR 0.37 (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 4–6/2018	Customer sales 4–6/2017	Change, %	Operating profit 4–6/2018	Operating profit 4–6/2017
Technology Services and Modernization	186.8	185.6	1	20.7	19.1
Business Consulting and Implementation	64.3	48.9	31	7.1	4.8
Industry Solutions	119.4	119.8	0	5.0	9.6
Product Development Services	33.7	31.3	8	2.9	2.3
Support Functions and Global Management	-	-		-4.4	-7.6
Total	404.1	385.6	5	31.3	28.1

Operating margin by service line

%	Operating margin 4–6/2018	Operating margin 4–6/2017	Adjusted ¹⁾ operating margin 4–6/2018	Adjusted ¹⁾ operating margin 4–6/2017
Technology Services and Modernization	11.1	10.3	12.3	11.7
Business Consulting and Implementation	11.0	9.9	9.8	7.7
Industry Solutions	4.2	8.0	4.9	9.4
Product Development Services	8.7	7.3	8.7	8.0
Total	7.7	7.3	8.6	9.2

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 was driven by infrastructure cloud¹⁾ and application services while the decline in traditional infrastructure services continued. In the first half, sales of infrastructure cloud were up by 21% and application services by 8% in local currencies. The first-half decline in sales of traditional infrastructure services was 5%. Operating margin somewhat improved, partly due to continued service standardization. The contribution of the efficiency programme continues to be lower and third-quarter profitability is anticipated to be below or at the level of the previous year's corresponding quarter.

In **Business Consulting and Implementation**, sales growth was attributable to the acquisition of Avega and strong growth in Customer Experience Management and Enterprise Applications. Organically, sales were up by 10%. Demand for new digital customer experience solutions contributed to growth across consulting system integration services. Adjusted operating profit improved significantly, mainly driven by good volume development. Third-quarter margin is seasonally lower and Tieto anticipates that adjusted operating margin will be around the level of the previous year's corresponding quarter.

In **Industry Solutions**, sales in local currencies increased by 3%, organically up by 4%. Growth remained strong in the SmartUtilities, Hydrocarbon Management and Case Management solutions. Sales of Tieto's Payments solutions were at the previous year's level while the solutions continue to expand its customer base, including a major win with a large Nordic bank for the recently launched renewed Virtual Account Management. Lifecare sales growth was in line with the market. Architectural renewal continues in a number of key solutions, including Healthcare Information System and SmartUtilities, Tieto's solution for the energy utility segment. In large-scale renewals, workload extensions may occur and related prolongations in development cycles postpone revenues. At the same time, prolongations result in further development costs for the new software and require maintaining the existing platforms longer than originally planned. Due to this, offering development costs in Industry Solutions were up by EUR 3 million and subcontracting costs by EUR 1 million. Additionally, negative currency impact on profit was EUR 1 million. Key launches in 2018 are expected to contribute to improved performance towards the year end. In the third quarter, profitability is expected to improve from the first-half level but remain slightly below or at the level of the third quarter of 2017.

In **Product Development Services**, sales growth in local currencies remained strong at 13%. Growth was attributable to strong volume development with the largest key customers and good development in the automotive segment. Operating margin somewhat improved while included non-recurring income. Third-quarter adjusted operating margin is seasonally lower and profitability is anticipated to be at the level of the corresponding quarter of the previous year.

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 4–6/2018	Customer sales 4–6/2017	Change, %
Financial Services	95.3	96.4	-1
Public, Healthcare and Welfare	133.2	126.5	5
Industrial and Consumer Services	141.9	131.5	8
IT services	370.5	354.3	5
Product Development Services	33.7	31.3	8
Total	404.1	385.6	5

In **Financial Services**, sales in local currencies were up by 2%. Growth was supported by the acquisition of Avega and strong demand for customer front-end solutions. In the Payments area, Tieto continues to expand its customer base, including a major win with a large Nordic bank for the recently launched renewed Virtual Account Management. Activity level in the Swedish outsourcing market is on the rise.

In **Public, Healthcare and Welfare**, sales in local currencies were up by 9%, organically 7%. Development was healthy across several markets, especially in Sweden, supported by a number of new agreements. Overall, the market is active with several digitalization initiatives and transition projects ongoing.

In **Industrial and Consumer Services**, sales in local currencies were up by 11%, supported by the acquisition of Avega. Organically, sales were up by 5% due to several agreements concluded during the year. Development remained good both in Finland and Sweden. Tieto posted healthy growth especially in SmartUtilities and Hydrocarbon Management

M&A impact in April–June

At the Group level, second-quarter sales in local currencies were organically up by 5%. Acquisitions added EUR 12 million in sales, mainly affecting Business Consulting and Implementation.

M&A impact by service line

	Growth, % (in local currencies) 4–6/2018	Organic growth, % (in local currencies) 4–6/2018
Technology Services and Modernization	3	3
Business Consulting and Implementation	36	10
Industry Solutions	3	4
IT services	7	4
Product Development Services	13	13
Total	8	5

M&A impact by industry group

	Growth, % (in local currencies) 4–6/2018	Organic growth, % (in local currencies) 4–6/2018
Financial Services	2	0
Public, Healthcare and Welfare	9	7
Industrial and Consumer Services	11	5
IT services	7	4
Product Development Services	13	13
Total	8	5

Financial performance in January–June

First-half net sales increased by 4.1% to EUR 810.5 (778.8) million, growth of 7.1% in local currencies. Acquisitions added EUR 25 million in sales, mainly affecting Business Consulting and Implementation. Currency fluctuations had a negative impact of EUR 23 million on sales, mainly due to the weaker Swedish Krona.

First-half operating profit (EBIT) amounted to EUR 68.6 (50.2) million, representing a margin of 8.5% (6.4). Adjusted¹⁾ operating profit stood at EUR 71.4 (71.1) million, or 8.8% (9.1) of net sales. Further details on adjustments are available in a table on page 38. Operating profit improved in all service lines except Industry Solutions, which was impacted by continued renewal in several software businesses. At the Group-level, offering development costs were up by EUR 2 million. Additionally, currency changes had a negative impact of around EUR 4 million on operating profit, and profitability was affected by salary inflation.

Depreciation and amortization amounted to EUR 29.0 (27.3) million, including EUR 2.7 (2.1) million in amortization of acquisition-related intangible assets. Net financial expenses stood at EUR 1.3 (1.6) million in the first half. Net interest expenses were EUR 1.0 (1.0) million and net gains from foreign exchange transactions EUR 0.1 (0.0) million. Other financial income and expenses amounted to EUR -0.4 (-0.6) million.

Earnings per share (EPS) totalled EUR 0.74 (0.50). Adjusted¹⁾ earnings per share amounted to EUR 0.77 (0.72).

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

Financial performance by service line

EUR million	Customer sales 1–6/2018	Customer sales 1–6/2017	Change, %	Operating profit 1–6/2018	Operating profit 1–6/2017
Technology Services and Modernization	376.3	374.1	1	41.3	32.8
Business Consulting and Implementation	126.4	100.1	26	12.3	7.8
Industry Solutions	240.1	241.4	-1	15.9	15.8
Product Development Services	67.6	63.1	7	7.2	6.4
Support Functions and Global Management	-	-	-	-8.2	-12.6
Total	810.5	778.8	4	68.6	50.2

Operating margin by service line

%	Operating margin 1–6/2018	Operating margin 1–6/2017	Adjusted ¹⁾ operating margin 1–6/2018	Adjusted ¹⁾ operating margin 1–6/2017
Technology Services and Modernization	11.0	8.8	11.6	11.0
Business Consulting and Implementation	9.7	7.8	9.2	8.5
Industry Solutions	6.6	6.6	6.2	8.8
Product Development Services	10.7	10.1	10.7	10.7
Total	8.5	6.4	8.8	9.1

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.

Customer sales by industry group

EUR million	Customer sales 1–6/2018	Customer sales 1–6/2017	Change, %
Financial Services	191.8	192.3	0
Public, Healthcare and Welfare	266.1	253.9	5
Industrial and Consumer Services	284.9	269.4	6
IT services	742.7	715.6	4
Product Development Services	67.6	63.1	7
Total	810.5	778.8	4

M&A impact by service line

	Growth, % (in local currencies) 1–6/2018	Organic growth, % (in local currencies) 1–6/2018
Technology Services and Modernization	3	3
Business Consulting and Implementation	30	4
Industry Solutions	3	4
IT services	7	3
Product Development Services	12	12
Total	7	4

M&A impact by industry group

	Growth, % (in local currencies) 1–6/2018	Organic growth, % (in local currencies) 1–6/2018
Financial Services	2	1
Public, Healthcare and Welfare	8	6
Industrial and Consumer Services	9	2
IT services	7	3
Product Development Services	12	12
Total	7	4

Cash flow, financing and investments

Second-quarter net cash flow from operations amounted to EUR 12.3 (-6.1) million, including the increase of EUR 22.4 (35.9) million in net working capital. The second quarter is seasonally weaker. Payments for restructuring amounted to EUR 2.1 (7.4) million.

First-half net cash flow from operations amounted to EUR 73.8 (73.7) million, including the increase of EUR 4.4 (decrease of 11.1) million in net working capital.

First-half tax payments were EUR 13.8 (12.5) million.

First-half capital expenditure totalled EUR 19.5 (30.3) million, of which paid EUR 18.7 (26.2) million. Capital expenditure represented 2.4% (3.9) of net sales and was mainly related to data centres. Net payments for acquisitions totalled EUR 10.2 (0.4) million.

The equity ratio was 38.2% (40.6). Gearing increased to 51.1% (39.8). Interest-bearing net debt totalled EUR 209.2 (164.6) million, including EUR 277.2 (215.6) million in interest-bearing debt, EUR 2.1 (4.8) million in finance lease liabilities, EUR 2.3 (4.2) million in finance lease receivables, EUR 0.5 (0.5) million in other interest-bearing receivables and EUR 67.4 (51.3) million in cash and cash equivalents.

Interest-bearing long-term loans amounted to EUR 1.7 (103.7) million at the end of June. The EUR 100 million bond matures in May 2019 and it carries a coupon of fixed annual interest of 2.875%. Interest-bearing short-term loans amounted to EUR 277.6 (116.7) million, mainly related to commercial paper issues and joint venture cash pool balances in addition to the bond. The syndicated revolving credit facility of EUR 150 million maturing in May 2021 was not in use at the end of June. The EUR 85 million financing agreement, concluded with the European Investment Bank in June 2017, was not utilized at the end of June. 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 assessing the order backlog.

The order backlog was impacted by a negative currency effect and amounted to EUR 1 731 (1 817) million. Of the backlog, 34% (33) is expected to be invoiced during 2018, representing revenue value of EUR 592 (592) million for 2018. In local currencies, the order backlog for 2018 provides support for Tieto's growth ambitions for the year.

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–June

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.

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

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

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

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

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

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

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

Business transactions in January–June

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

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

On 19 April, Tieto announced the acquisition of NSEC AB, a Swedish security services company employing about 30 security professionals. The acquisition further strengthens Tieto's cyber security capabilities and adds to Tieto's growing portfolio of security services. Headquartered in Stockholm, NSEC 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.

Personnel

The number of full-time employees amounted to 14 956 (13 754) at the end of June. The number of full-time employees in the global delivery centres totalled 7 448 (6 733), or 49.8% (49.0) of all personnel.

In the first half, the number of full-time employees was up by a net amount of over 600. The net impact of acquisitions and outsourcing agreements was not significant.

The 12-month rolling employee turnover stood at 11.5% (11.4) at the end of June.

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.

Operating structure

Tieto has implemented internal business transfers that help the company capture consulting-driven market opportunities as well as further drive customer value. As from 1 April, business transfers from Technology Services and Modernization to Business Consulting and Implementation include enterprise application-related business for cloud-born applications, integration consulting and Value Networks as a related solution. Annual sales of the transferred businesses amount to around EUR 37 million. In addition, Tieto's Financial Digital Channels business (previously part of the Industry Solutions service line), with sales of EUR 11 million, was transferred to Business Consulting and Implementation on 1 May. Other business transfers are smaller in size.

Shares

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

On 9 May, Tieto Corporation's trading codes in the Nasdaq Helsinki and Stockholm trading system were changed. On Nasdaq Helsinki, the trading code was changed from TIE1V to TIETO, and on Nasdaq Stockholm from TIEN to TIETOS.

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 took effect in May 2018. Tieto is well prepared for the new regulation although there is increased uncertainty with regards to how the authorities will interpret the regulation. As many customers still continue to finalize their preparations for the regulation changes, Tieto can tap into opportunities in businesses such as security and application services. Companies around the world are facing new risks arising from tax audits and some countries may introduce new regulation. Additionally, changes in the tax authorities' interpretations could have unfavourable impacts on taxpayers.

Events after the period

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

Full-year outlook for 2018 unchanged

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

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

Financial calendar 2018

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 4-6	2017 4-6	2018 1-6	2017 1-6	Change %	2017 1-12
Net sales	404.1	385.6	810.5	778.8	4	1 543.4
Other operating income	3.5	4.3	10.7	7.4	45	17.4
Employee benefit expenses	-231.5	-224.0	-465.6	-463.7	0	-873.3
Depreciation, amortization and impairment losses	-15.2	-13.6	-29.0	-27.3	6	-54.7
Other operating expenses	-130.9	-124.9	-260.3	-246.4	6	-496.9
Share of results in joint ventures	1.3	0.7	2.3	1.4	64	3.2
Operating profit (EBIT)	31.3	28.1	68.6	50.2	37	139.1
Interest and other financial income	0.6	0.4	1.1	0.8	38	1.5
Interest and other financial expenses	-1.3	-1.2	-2.5	-2.4	4	-4.7
Net foreign exchange gains/losses	0.1	0.2	0.1	-0,0	-	-0.2
Profit before taxes	30.6	27.5	67.3	48.5	39	135.7
Income taxes	-5.9	-6.6	-12.7	-11.8	8	-28.0
Net profit for the period	24.7	20.9	54.6	36.7	49	107.7
Net profit for the period attributable to						
Shareholders of the Parent company	24.7	20.9	54.6	36.7	49	107.7
Non-controlling interest	0.0	-	0.0	-	-	0.0
	24.7	20.9	54.6	36.7	49	107.7
Earnings per share attributable to the shareholders of the Parent company, EUR						
Basic and diluted	0.33	0.28	0.74	0.50	48	1.46

Statement of other comprehensive income, EUR million

	2018 4-6	2017 4-6	2018 1-6	2017 1-6	Change %	2017 1-12
Net profit for the period	24.7	20.9	54.6	36.7	49	107.7
Items that may be reclassified subsequently to profit or loss						
Translation differences	-3.7	-10.5	-16.7	-10.0	67	-19.0
Items that will not be reclassified subsequently to profit or loss						
Remeasurements of the defined benefit pension obligations, net of tax	-2.7	1.1	-0.6	-1.5	-60	-2.4
Total comprehensive income	18.3	11.5	37.3	25.2	48	86.3
Total comprehensive income attributable to						
Shareholders of the Parent company	18.3	11.5	37.3	25.2	48	86.3
Non-controlling interest	0.0	-	0.0	-	-	0.0
	18.3	11.5	37.3	25.2	48	86.3

Statement of financial position, EUR million

	2018 30 Jun	2017 30 Jun	Change %	2017 31 Dec
Goodwill	437.5	405.0	8	441.3
Other intangible assets	43.7	50.5	-13	51.1
Property, plant and equipment	90.4	97.1	-7	94.9
Interests in joint ventures	15.4	14.4	7	16.3
Deferred tax assets	26.2	28.8	-9	25.7
Finance lease receivables	0.9	1.1	-18	0.8
Other financial assets at amortized cost	0.5	0.5	0	0.4
Other financial assets at fair value through profit or loss	0.6	0.7	-14	0.5
Total non-current assets	615.2	598.1	3	631.0
Trade and other receivables	418.2	398.9	5	422.5
Pension benefit assets	3.2	6.0	-47	7.4
Finance lease receivables	1.4	3.1	-55	2.0
Other interest-bearing receivables	0.0	0.0	-	0.0
Current tax assets	8.9	16.1	-45	8.7
Cash and cash equivalents	67.4	51.3	31	78.2
Total current assets	499.1	475.4	5	518.8
Total assets	1 114.3	1 073.4	4	1 149.9
Share capital, share issue premiums and other reserves	117.5	119.8	-2	119.2
Retained earnings	292.0	294.1	-1	356.6
Equity attributable to owners of the parent	409.5	413.9	-1	475.8
Non-controlling interest	0.0	-	-	0.4
Total equity	409.5	413.9	-1	476.1
Loans	1.7	103.7	-98	102.5
Deferred tax liabilities	35.6	34.1	4	38.5
Provisions	2.0	5.1	-61	2.6
Pension benefit obligations	10.0	13.8	-28	11.9
Other non-current liabilities	7.1	1.7	> 100	4.5
Total non-current liabilities	56.5	158.4	-64	160.0
Trade and other payables	359.1	360.9	0	362.9
Current tax liabilities	5.7	7.4	-23	5.9
Provisions	5.9	16.0	-63	10.3
Loans	277.6	116.7	138	134.6
Total current liabilities	648.3	501.1	29	513.7
Total equity and liabilities	1 114.3	1 073.4	4	1 149.9

Statement of changes in shareholders' equity, EUR million

	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 2017	76.6	42.6	-11.6	-78.5	12.8	433.3	475.2	0.4	475.6
Adjustment on initial application of IFRS 15 and IFRS 9, net of tax						0.2	0.2		0.2
Adjustment on initial application of IFRS 2 amendment						4.0	4.0		4.0
Other adjustment			3.9			-3.9	0.0		0.0
At 1 Jan 2018	76.6	42.6	-7.7	-78.5	12.8	433.5	479.3	0.4	479.7
Comprehensive income									
Net profit for the period						54.6	54.6	0.0	54.6
Other comprehensive income, net of tax									
Remeasurements of the defined benefit pension obligations, net of tax						-0.6	-0.6		-0.6
Translation differences		-1.7		-14.9		-0.1	-16.7		-16.7
Total comprehensive income		-1.7		-14.9		53.9	37.3	0.0	37.3
Transactions with owners									
Contributions and distributions									
Share-based payments			2.6			-3.8	-1.2		-1.2
Dividends						-103.4	-103.4		-103.4
Changes in ownership interests									
Acquisition of NCI without change in control						-2.5	-2.5	-0.4	-2.9
Total transactions with owners			2.6			-109.7	-107.1	-0.4	-107.5
At 30 Jun 2018	76.6	40.9	-5.1	-93.4	12.8	377.7	409.5	0.0	409.5

	Parent shareholders' equity						Non-	Total	
	Share capital	Share premium and other reserves	Own shares	Translation differences	Invested unrestricted equity reserve	Retained earnings	control- ing inter- est	equity	
At 31 Dec 2016	76.6	43.4	-11.6	-52.3	12.8	419.2	488.1	-	488.1
Adjustment on initial application of IFRS 15 and IFRS 9, net of tax						0.6	0.6		0.6
At 1 Jan 2017	76.6	43.4	-11.6	-52.3	12.8	419.8	488.7	-	488.8
Comprehensive income									
Net profit for the period						36.7	36.7		36.7
Other comprehensive income, net of tax									
Remeasurements of the defined benefit pension obligations, net of tax						-1.5	-1.5		-1.5
Translation differences		-0.2		-13.6		3.8	-10.0		-10.0
Total comprehensive income		-0.2		-13.6		39.0	25.2		25.2
Transactions with owners									
Contributions and distributions									
Share-based payments						0.9	0.9		0.9
Dividends						-101.0	-101.0		-101.0
Total transactions with owners						-100.1	-100.1		-100.1
At 30 Jun 2017	76.6	43.2	-11.6	-65.9	12.8	358.7	413.9	-	413.9

Statement of cash flows, EUR million

	2018 4-6	2017 4-6	2018 1-6	2017 1-6	2017 1-12
Cash flow from operations					
Net profit	24.7	20.9	54.6	36.7	107.7
Adjustments					
Depreciation, amortization and impairment losses	15.2	13.6	29.0	27.3	54.7
Profit/loss on sale of fixed assets, shares and business operations	0.2	-0.1	-3.0	-0.1	0.0
Share of results in joint ventures	-1.3	-0.7	-2.3	-1.4	-3.2
Other adjustments	-0.7	0.6	1.9	0.6	-3.5
Net financial expenses	0.6	0.6	1.3	1.6	3.4
Income taxes	5.9	6.6	12.7	11.8	28.0
Change in net working capital	-22.4	-35.9	-4.4	11.1	-15.3
Cash generated from operations	22.2	5.6	89.8	87.7	171.8
Net financial expenses paid	-3.0	-5.6	-5.3	-5.0	-7.4
Dividends received	0.0	-	3.2	3.5	3.5
Income taxes paid	-6.9	-6.1	-13.8	-12.5	-16.9
Net cash flow from operations	12.3	-6.1	73.8	73.7	151.0
Cash flow from investing activities					
Acquisition of Group companies and business operations, net of cash acquired	-4.0	-	-10.2	-0.4	-43.7
Capital expenditures	-10.5	-16.9	-18.7	-26.2	-47.0
Disposal of Group companies and business operations, net of cash disposed	1.0	-	7.1	-	-0.3
Sales of fixed assets	0.1	0.2	0.1	0.2	0.4
Change in loan receivables	0.0	1.3	0.6	1.4	2.7
Net cash flow from investing activities	-13.6	-15.4	-21.2	-25.1	-87.9
Cash flow from financing activities					
Dividends paid	-103.4	-101.0	-103.4	-101.0	-101.0
Payments of finance lease liabilities	-0.2	-0.3	-0.4	-0.6	-1.0
Change in interest-bearing liabilities	122.1	95.3	41.3	43.9	61.8
Other financing cash flow	-4.2	-	-4.2	-	-
Net cash flow from financing activities	14.3	-6.0	-66.7	-57.7	-40.2
Change in cash and cash equivalents	13.0	-27.5	-14.1	-9.1	22.9
Cash and cash equivalents at the beginning of period	53.9	76.9	78.2	56.7	56.7
Foreign exchange differences	0.5	1.9	3.3	3.7	-1.4
Change in cash and cash equivalents	13.0	-27.5	-14.1	-9.1	22.9
Cash and cash equivalents at the end of period	67.4	51.3	67.4	51.3	78.2

Notes to the condensed financial statements

Basis of preparation

This interim report is unaudited and it is prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the EU. The accounting policies adopted are consistent with those used in the annual financial statements for the year ended on 31 December 2017, except for the adoption of IFRS 15, IFRS 9 and the amendment to IFRS 2, as described below.

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

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

Adoption of new and amended IFRS standards and interpretations

IFRS 15 'Revenue from Contracts with Customers'

Starting from 1 January 2018, the Group 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 June 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 December 2017 or 31 June 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.

IFRS 16 Leases

The Group will adopt IFRS 16 Leases on 1 January 2019. It will result in almost all leases being recognized on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new

standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. Only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has identified operating lease commitments of EUR 156.7 million. The concepts of agreements processed as contingent off-balance sheet liabilities and concepts under IFRS 16 reporting are somewhat different, which is why the number of agreements and also amounts of the balance sheet contracts, may differ from currently reported amounts. The majority of the operating leases are for the use of office buildings, employee cars and data centers. The Group has initiated IFRS 16 implementation project already in 2017, IFRS 16 analysis is on-going and will be completed during 2018. The accounting software provider has been selected. In further steps, the focus is on the data collection activities and implementation of necessary changes in tools and processes. Tieto plans to apply the modified retrospective method, which means that the comparative figures will not be restated.

Critical accounting estimates and assumptions

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

Segment information

Customer sales by service line, EUR million

	2018 4–6	2017 4–6	Change %	2018 1–6	2017 1–6	Change %	2017 1–12
Technology Services and Modernization	186.8	185.6	1	376.3	374.1	1	735.4
Business Consulting and Implementation	64.3	48.9	31	126.4	100.1	26	195.9
Industry Solutions	119.4	119.8	0	240.1	241.4	-1	486.0
Product Development Services	33.7	31.3	8	67.6	63.1	7	126.1
Group total	404.1	385.6	5	810.5	778.8	4	1 543.4

No internal sales occur between service lines as in the management accounting, revenue and costs are booked directly to the respective customer projects in the service lines.

Customer sales by country, EUR million

	2018 4–6	2017 4–6	Change %	2018 1–6	2017 1–6	Change %	Share %	2017 1–12	Share %
Finland	176.5	171.6	3	353.1	344.8	2	44	675.9	44
Sweden	158.1	147.7	7	322.7	298.5	8	40	599.0	39
Norway	38.7	40.7	-5	75.9	84.4	-10	9	161.2	10
Other	30.8	25.6	20	58.7	51.0	15	7	107.4	7
Group total	404.1	385.6	5	810.5	778.8	4	100	1 543.4	100

In Finland, IT services sales increased with 3.0% during the second quarter and 2.6% in the six month period.

In Sweden, growth in local currencies was 14.2% during the second quarter and 14.3% in the six month period. IT services grew in local currencies by 15.7% during the second quarter and 15.8% in the six month period.

In Norway, sales decreased in local currencies with 2.9% during the second quarter and 5.9% in the six month period.

Customer sales by industry group, EUR million

	2018 4–6	2017 4–6	Change %	2018 1–6	2017 1–6	Change %	2017 1–12
Financial Services	95.3	96.4	-1	191.8	192.3	0	384.4
Public, Healthcare and Welfare	133.2	126.5	5	266.1	253.9	5	501.7
Industrial and Consumer Services	141.9	131.5	8	284.9	269.4	6	531.2
Product Development Services	33.7	31.3	8	67.6	63.1	7	126.1
Group total	404.1	385.6	5	810.5	778.8	4	1 543.4

Customer sales to the telecom sector were EUR 120 (119) million during January–June.

Revenues derived from any single external customer during January–June 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

	4–6			1–6		
	Fixed price projects	Other sales	Customer sales total	Fixed price projects	Other sales	Customer sales total
2018						
Technology Services and Modernization	30.1	156.7	186.8	60.6	315.6	376.3
Business Consulting and Implementation	18.8	45.5	64.3	34.0	92.4	126.4
Industry Solutions	32.3	87.1	119.4	63.1	177.0	240.1
Product Development Services	9.4	24.3	33.7	18.9	48.8	67.6
Group total	90.6	313.6	404.1	176.6	633.9	810.5

	4–6			1–6			1–12		
	Fixed price projects	Other sales	Customer sales total	Fixed price projects	Other sales	Customer sales total	Fixed price projects	Other sales	Customer sales total
2017									
Technology Services and Modernization	34.0	151.6	185.6	69.7	304.4	374.1	132.6	602.8	735.4
Business Consulting and Implementation	17.7	31.2	48.9	35.2	64.9	100.1	65.4	130.5	195.9
Industry Solutions	35.9	84.0	119.8	69.9	171.6	241.4	141.8	344.2	486.0
Product Development Services	10.7	20.6	31.3	22.7	40.5	63.1	41.3	84.8	126.1
Group total	98.3	287.3	385.6	197.4	581.3	778.8	381.1	1 162.3	1 543.4

Operating profit (EBIT) by service line, EUR million

	2018 4-6	2017 4-6	Change %	2018 1-6	2017 1-6	Change %	2017 1-12
Technology Services and Modernization	20.7	19.1	8	41.3	32.8	26	78.5
Business Consulting and Implementation	7.1	4.8	46	12.3	7.8	58	16.1
Industry Solutions	5.0	9.6	-47	15.9	15.8	1	54.4
Product Development Services	2.9	2.3	28	7.2	6.4	13	12.0
Support Functions and Global Management	-4.4	-7.6	42	-8.2	-12.6	35	-21.9
Operating profit (EBIT)	31.3	28.1	11	68.6	50.2	37	139.1

Operating margin (EBIT) by service line, %

	2018 4-6	2017 4-6	Change pp	2018 1-6	2017 1-6	Change pp	2017 1-12
Technology Services and Modernization	11.1	10.3	1	11.0	8.8	2	10.7
Business Consulting and Implementation	11.0	9.9	1	9.7	7.8	2	8.2
Industry Solutions	4.2	8.0	-4	6.6	6.6	0	11.2
Product Development Services	8.7	7.3	1	10.7	10.1	1	9.5
Operating margin (EBIT)	7.7	7.3	0	8.5	6.4	2	9.0

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

	2018 4-6	2017 4-6	Change %	2018 1-6	2017 1-6	Change %	2017 1-12
Technology Services and Modernization	22.9	21.6	6	43.7	41.2	6	88.6
Business Consulting and Implementation	6.3	3.8	67	11.7	8.5	38	16.3
Industry Solutions	5.9	11.2	-48	14.9	21.1	-29	57.7
Product Development Services	2.9	2.5	17	7.3	6.8	7	12.3
Support Functions and Global Management	-3.2	-3.6	13	-6.2	-6.5	5	-13.4
Adjusted operating profit (EBIT)	34.8	35.5	-2	71.4	71.1	0	161.4

Adjusted operating margin (EBIT) by service line, %

	2018 4-6	2017 4-6	Change pp	2018 1-6	2017 1-6	Change pp	2017 1-12
Technology Services and Modernization	12.3	11.7	1	11.6	11.0	1	12.1
Business Consulting and Implementation	9.8	7.7	2	9.2	8.5	1	8.3
Industry Solutions	4.9	9.4	-4	6.2	8.8	-3	11.9
Product Development Services	8.7	8.0	1	10.7	10.7	0	9.7
Adjusted operating margin (EBIT)	8.6	9.2	-1	8.8	9.1	0	10.5

Personnel by service line

	End of period			Average			
	2018 1-6	Change %	Share %	2017 1-6	2017 1-12	2018 1-6	2017 1-6
Technology Services and Modernization	5 982	4	40	5 743	5 757	5 873	5 841
Business Consulting and Implementation	2 320	23	16	1 881	2 224	2 282	1 904
Industry Solutions	4 101	6	27	3 874	3 925	4 038	3 867
Product Development Services	1 570	13	10	1 388	1 532	1 537	1 330
Service lines total	13 973	8	93	12 886	13 438	13 730	12 942
Industry groups	345	36	2	253	279	336	257
Support Functions and Global Management	638	4	4	614	612	625	622
Group total	14 956	9	100	13 754	14 329	14 692	13 821

Personnel by country

	End of period			Average			
	2018 1-6	Change %	Share %	2017 1-6	2017 1-12	2018 1-6	2017 1-6
Finland	3 440	2	23	3 369	3 364	3 389	3 449
Sweden	3 097	14	21	2 706	3 036	3 072	2 710
India	2 713	9	18	2 489	2 571	2 674	2 488
Czech Republic	2 401	8	16	2 233	2 254	2 342	2 246
Latvia	629	0	4	630	612	616	634
Norway	595	-1	4	601	600	596	616
Poland	648	41	4	460	538	594	441
China	480	25	3	385	460	471	346
Estonia	291	2	2	286	274	284	292
Austria	148	11	1	134	134	143	135
Lithuania	111	18	1	94	106	110	97
Other	402	10	3	367	381	401	367
Group total	14 956	9	100	13 754	14 329	14 692	13 821
Onshore countries	7 507	7	50	7 021	7 350	7 425	7 121
Offshore countries	7 449	11	50	6 733	6 979	7 267	6 700
Group total	14 956	9	100	13 754	14 329	14 692	13 821

Non-current assets by country, EUR million

	2018 30 Jun	2017 30 Jun	Change %	2017 31 Dec
Finland	77.9	90.4	-14	84.6
Sweden	39.0	37.9	3	42.8
Norway	10.1	13.6	-26	12.0
Other	7.2	5.7	25	6.5
Total non-current assets	134.1	147.6	-9	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 4-6	2017 4-6	Change %	2018 1-6	2017 1-6	Change %	2017 1-12
Technology Services and Modernization	8.1	8.1	1	15.9	16.4	-3	32.5
Business Consulting and Implementation	0.0	0.1	-33	0.1	0.1	-31	0.2
Industry Solutions	0.2	0.2	24	0.4	0.5	-18	0.9
Product Development Services	0.0	0.0	-	0.0	0.1	-	0.1
Support Functions and Global Management	1.7	1.4	22	3.4	2.7	27	5.7
Group total	10.1	9.7	4	19.9	19.8	1	39.5

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

	2018 4-6	2017 4-6	Change %	2018 1-6	2017 1-6	Change %	2017 1-12
Technology Services and Modernization	-	-	-	-	-	-	-
Business Consulting and Implementation	0.4	0.1	> 100	0.8	0.2	> 100	0.5
Industry Solutions	1.0	0.9	4	1.9	1.9	0	3.7
Product Development Services	-	-	-	-	-	-	-
Support Functions and Global Management	-	-	-	-	-	-	-
Group total	1.4	1.0	33	2.7	2.1	29	4.3

Amortization on other intangible assets by service line, EUR million

	2018 4-6	2017 4-6	Change %	2018 1-6	2017 1-6	Change %	2017 1-12
Technology Services and Modernization	3.4	2.0	66	5.3	4.2	28	8.5
Business Consulting and Implementation	0.1	0.1	5	0.2	0.2	0	0.3
Industry Solutions	0.1	0.1	-2	0.3	0.3	-11	0.6
Product Development Services	-	-	-	-	-	-	-
Support Functions and Global Management	0.1	0.5	-76	0.6	0.8	-21	1.5
Group total	3.7	2.8	33	6.4	5.4	18	10.9

Acquisitions during January–June in 2018

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

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

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

Petroleumz AS

Petroleumz AS 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. Petroleumz 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. Fair values of the identifiable assets are provisional due to ongoing identification and valuation.

Consideration

EUR million

Paid in cash	3.4
Contingent consideration	3.7
Total consideration	7.1

Recognized amounts of identifiable assets acquired and liabilities assumed

EUR million

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

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

The identified intangible assets relate to customer relationships and technology. Goodwill is attributable to market share, synergies and new competencies. It will not be deductible for tax purposes. Acquisition-related costs of EUR 0.1 million are included in other operating expenses in the income statement and in cash flow from operations.

Since the date of acquisition, the acquired entity has contributed approximately EUR 0.5 million to the revenue and EUR -0.6 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 0.6 million and profit approximately EUR -0.6 million.

NSEC AB

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

Acquisition of noncontrolling interest in subsidiaries of Avega

During January–June 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–June 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 is specified below. The capital gain calculation is provisional due to ongoing identification and valuation of the underlying assets and liabilities.

EUR million

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

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

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

	2018 30 Jun	2017 30 Jun	Change %	2018 31 Mar	2017 31 Dec
Trade receivables	305.5	265.3	15	320.7	309.3
Other working capital receivables	112.6	133.6	-16	118.6	113.2
Working capital receivables included in assets	418.1	398.9	5	439.2	422.5
Trade payables	106.7	98.2	9	111.6	104.2
Personnel related accruals	146.9	151.3	-3	168.5	155.0
Provisions	7.9	21.1	-63	10.2	12.9
Other working capital liabilities	105.7	106.3	-1	123.2	100.0
Working capital liabilities included in liabilities	367.2	376.9	-3	413.6	372.1
Net working capital in the statement of financial position	50.9	22.0	131	25.7	50.4

Derivatives, EUR million

Nominal amounts of derivatives

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

	2018 30 Jun	2017 31 Dec
Foreign exchange forward contracts	222.1	179.6
Electricity price future contracts	0.8	0.9

Fair values of derivatives

The net fair values of derivative financial instruments at the of the reporting period	2018 30 Jun	2017 31 Dec
Foreign exchange forward contracts	-1.5	0.8
Electricity price future contracts	0.3	0.1

Derivatives are used for economic hedging purposes only.

Gross positive fair values of derivatives	2018 30 Jun	2017 31 Dec
Foreign exchange forward contracts	1.4	1.7
Electricity price future contracts	0.3	0.1

Gross negative fair values of derivatives	2018 30 Jun	2017 31 Dec
Foreign exchange forward contracts	-2.9	-0.9
Electricity price future contracts	-	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**

30 Jun 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	1.7	-	1.7
Other	-	-	0.6	0.6
Financial liabilities at fair value through profit or loss				
Derivatives	-	-2.9	-	-2.9

EUR million

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

Other financial assets at fair value through profit or loss' (Available-for-sale investments in 2017) fair value measurement is based on their initial value. The fair market value cannot be reliably estimated, due to lack of proper market for the assets.

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

Commitments and contingencies, EUR million

	2018 30 Jun	2017 31 Dec
For Tieto obligations		
Pledges	-	1.6
Mortgages	-	3.4
Guarantees		
Performance guarantees	1.3	0.9
Lease guarantees	8.4	8.6
Other	0.4	0.5
Other Tieto obligations		
Rent commitments due in one year	37.1	41.6
Rent commitments due in 1–5 years	86.2	98.0
Rent commitments due after 5 years	13.5	17.9
Operating lease commitments due in one year	9.8	10.9
Operating lease commitments due in 1–5 years	10.1	12.0
Operating lease commitments due after 5 years	0.0	0.4
Commitments to purchase assets	1.0	7.4
Other	1.2	1.6

Number of shares

	2018 4–6	2018 1–3	2018 1–6	2017 1–6	2017 1–12
Outstanding shares, end of period					
Basic	73 826 349	73 826 349	73 826 349	73 723 125	73 723 125
Effect of dilutive share-based benefit plans	141 943	45 810	140 556	148 988	151 786
Diluted	73 968 292	73 872 159	73 966 905	73 872 113	73 874 911
Outstanding shares, average					
Basic	73 826 349	73 742 594	73 784 703	73 721 995	73 722 565
Effect of dilutive share-based benefit plans	141 943	45 810	140 556	148 988	151 786
Diluted	73 968 292	73 788 404	73 925 259	73 870 983	73 874 351
Company's possession of its own shares					
End of period	282 903	282 903	282 903	386 127	386 127
Average	282 903	366 658	324 549	387 257	386 687

Key figures

	2018 4-6	2017 4-6	2018 1-3	2018 1-6	2017 1-6	2017 1-12
Earnings per share, EUR						
Basic and diluted	0.33	0.28	0.41	0.74	0.50	1.46
Equity per share, EUR	5.55	5.61	5.29	5.55	5.61	6.46
Return on equity, 12-month rolling, %	30.5	23.6	30.7	30.5	23.6	22.3
Return on capital employed, 12-month rolling, %	24.1	21.0	29.2	24.1	21.0	20.5
Equity ratio, %	38.2	40.6	36.3	38.2	40.6	42.5
Interest-bearing net debt, EUR million	209.2	164.6	100.7	209.2	164.6	155.7
Gearing, %	51.1	39.8	25.8	51.1	39.8	32.7
Capital expenditure, EUR million	11.4	21.0	8.2	19.5	30.3	50.8
Acquisitions, EUR million	2.3	-	9.9	12.2	-	49.3

Adjusted operating profit (EBIT)

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

EUR million	2018 4-6	2017 4-6	2018 1-6	2017 1-6	2017 1-12
Operating profit (EBIT)	31.3	28.1	68.6	50.2	139.1
+ restructuring costs	1.8	5.3	2.6	18.7	22.7
- capital gains	0.2	-	-3.0	-	-
+ capital losses	-	-	-	-	0.3
+/- M&A related items	0.8	0.0	0.9	0.1	-0.2
+/- other items	0.8	2.1	2.3	2.1	-0.5
Adjusted operating profit (EBIT)	34.8	35.5	71.4	71.1	161.4

"Other items" in the second quarter include mainly write-offs related to obsolete assets. First-half includes in addition a value added tax correction of EUR 1.2 million from previous years in Russia.

Quarterly figures

Key figures

	2018 4-6	2018 1-3	2017 10-12	2017 7-9	2017 4-6	2017 1-3
Earnings per share, EUR						
Basic and diluted	0.33	0.41	0.50	0.46	0.28	0.22
Equity per share, EUR	5.55	5.29	6.46	6.07	5.61	5.45
Return on equity, 12-month rolling, %	30.5	30.7	22.3	23.5	23.6	25.3
Return on capital employed, 12-month rolling, %	24.1	29.2	20.5	21.0	21.0	25.8
Equity ratio, %	38.2	36.3	42.5	44.5	40.6	39.2
Interest-bearing net debt, EUR million	209.2	100.7	155.7	161.4	164.6	38.0
Gearing, %	51.1	25.8	32.7	36.1	39.8	9.5
Capital expenditure, EUR million	11.4	8.1	11.4	9.1	21.0	9.3
Acquisitions, EUR million	2.3	9.9	49.3	-	-	-

Income statement, EUR million

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

Statement of financial position, EUR million

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

Statement of cash flows, EUR million

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

Quarterly figures by segments

Customer sales by service line, EUR million

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

Customer sales by industry group, EUR million

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

Operating profit (EBIT) by service line, EUR million

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

Operating margin (EBIT) by service line, %

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

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

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

Adjusted operating margin (EBIT) by service line, %

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

Major shareholders on 30 June 2018

	Shares	%
1 Cevian Capital ¹⁾	11 066 684	14.9
2 Solidium Oy	7 415 418	10.0
3 Silchester International Investors LLP ²⁾	7 401 027	10.0
4 Swedbank Robur fonder	1 688 433	2.3
5 Ilmarinen Mutual Pension Insurance Co.	1 675 415	2.3
6 The State Pension fund	773 000	1.0
7 Elo Pension Co.	750 000	1.0
8 Svenska litteratursällskapet i Finland r.f.	641 345	0.9
9 Nordea Funds	640 408	0.9
10 Åbo Akademi University Foundation	487 400	0.7
Top 10 shareholders total	32 539 130	43.9
- of which nominee registered	20 156 144	27.2
Nominee registered other	26 414 725	35.6
Others	15 155 397	20.5
Total	74 109 252	100.0

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

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

²⁾ On 23 June 2015, Silchester International Investors LLP announced that its holding in Tieto Corporation was 7 401 027 shares, which represents 10.0% of the shares and voting rights.

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A **teleconference for analysts and media** will be held on Friday 20 July 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 Espoo, address: Keilalahdentie 2-4.

Kimmo Alkio, President and CEO, 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.

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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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