Tieto Q3/2013

Tieto’s renewal continues – improvement in efficiency and underlying profitability

Kimmo Alkio – President and CEO
Lasse Heinonen – CFO
Tanja Lounevirts – Head of IR

23 October 2013

Q3 2013 in brief

• Tieto’s renewal continues – improvement in efficiency and underlying profitability
  
  • Third-quarter EBIT margin of the underlying business rose to 10.1% (8.9) despite continued weakness in the telecom sector
  
  • Cloud services and IT legacy modernization enable more efficient delivery of IT services
  
  • Additional efficiency measures with the target of achieving over EUR 50 million in savings ongoing
Market development

- Tieto expects the Nordic IT services market to grow by 0–2% in 2013, with IT outsourcing as the main source of growth

- Healthy activity level in the Nordic IT services market
  - Active market for projects to transform ICT infrastructure into more standardized cloud solutions
  - Longer-term opportunities for the renewal of old legacy systems and transformation into new platforms combining traditional IT with scalable and flexible IT environments
  - Decision-making cycles have remained long
  - Competition has intensified during 2013

- Double-digit growth for mobility and cloud services while the traditional IT services market is likely to decline
  - Good demand for standardized cloud solutions
  - Focus on mobility, business intelligence and enterprise content management as well as “as a service” delivery models

Market drivers

<table>
<thead>
<tr>
<th>Mobility</th>
<th>Cloud</th>
<th>Big Data</th>
<th>Social media</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerating growth driver for future IT market</td>
<td>Over 10% of Tieto’s server capacity has been or is being transferred to a cloud environment at the end of 2013</td>
<td>Expected to be one of the fastest growing areas in IT services market is expected to grow to ~5% by 2016</td>
<td>Social media tools will help minimize travel and increase productivity and are of key importance in streamlining the operations of enterprises</td>
</tr>
<tr>
<td>Gradually becoming an integrated component of traditional IT projects</td>
<td>In Q3 the share of cloud services sales in Managed Services rose to EUR 6 million representing 5% of MS net sales</td>
<td>Tieto is leading the Data-to-Intelligence programme launched by DIGILE, the Strategic Centre for Science, Technology and Innovation in the Field of ICT in Finland</td>
<td>Tieto expanded its existing service offering with Google Apps, a public cloud-based productivity suite, as an addition to other 3rd party UCC services</td>
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<tr>
<td>In Q3 Tieto closed new consulting assignments, e.g. with a major construction company, and continued working on a project with a large customer in the financial sector</td>
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- Over 25% growth from new emerging IT services
- Spend in traditional IT services is expected to decrease by 1–3%*
Q3 2013 key figures

Net sales
- EUR 373 million (424), -12%, organic -4%
  - Divestments EUR 36 million
  - Currency EUR -7 million
  - Organic growth outside telecom sector -1%

EBIT
- EBIT EUR 24.8 million (32.0), 6.6% (7.6)
  - EUR 1.4 million capital gain related to Fidenta
  - EUR 14.5 million restructuring costs
- EBIT excluding one-off items*
  EUR 37.9 million (37.5)

Order backlog
- Order backlog EUR 1 513 million (1 652),
  divestments impact EUR 63 million
- TCV EUR 293 (307) million
- Book-to-bill 0.8 (0.7)

Earnings per share
- EUR 0.25 (0.32)
- EUR 0.38 (0.38), excluding one-off items*

Q3 2013 key figures

Quarterly development

Net sales
- Reported and Adjusted for divestments

EBIT excluding one-off items

Number of personnel
- Offshore ratio Q3/13
  - IT Services 38.4% (34.0)
  - PDS 59.4% (58.6)
- Number of personnel down by a net amount of 2 243
Service Lines

Product Development Services

Financial Services

Manufacturing, Retail and Logistics

Public, Healthcare and Welfare

Telecom, Media and Energy

Industry Products

Consulting and System Integration

Managed Services

Customer sales
- EUR 120 million (125), -4%
- Growth adjusted for divestments -4%
- Comparison figure for sales in 2012 included EUR ~4 million in non-recurring income

EBIT
- EBIT 3.6 EUR million (7.5), 3.0% (6.0)
- EBIT excluding one-off items* EUR 5.9 million (9.3)

Q3 highlights
- Active market for projects to transform ICT infrastructure to cloud-based environments
- Cloud-related sales to EUR 6 million, 5% of sales
- Strongest growth in Financial Services and Public, Healthcare and Welfare
- Higher volumes did not fully translate into profits due intense competition and lower unit prices

*) Excluding capital gains, impairments and restructuring costs
Consulting and System Integration

Customer sales
- EUR 92 million (109), -16%
- Growth adjusted for divestments -1%

EBIT
- EBIT 4.0 EUR million (13.0), 4.4% (11.9)
- EBIT excluding one-off items* EUR 9.6 million (13.6)

Q3 highlights
- Challenging telecom sector
- Increased volumes in financial services and public sector
- Improved demand for cloud and business transformation consulting
- Improved trend in underlying profitability despite weak telecom
- Satu Kiiskinen appointed as Head of CSI

*) Excluding capital gains, impairments and restructuring costs

Industry Products

Customer sales
- EUR 101 million (115), -13%
- Growth adjusted for divestments -4%
- Fidenta divested on 1 July

EBIT
- EBIT 22.3 EUR million (13.0), 22.2% (11.3)
- EBIT excluding one-off items* EUR 20.8 million (14.2)

Q3 highlights
- Sales decline of underlying business partly due to public sector in Finland
- Demand for the oil & gas products remained healthy
- Good demand for maintenance services
- Improved profitability due to divestments, higher operational efficiency and healthier business mix

*) Excluding capital gains, impairments and restructuring costs
**Product Development Services**

**Customer sales**
- EUR 60 million (75), -19%
- Growth adjusted for divestments -9%

**EBIT**
- EBIT EUR 3.0 million (0.4), 5.0% (0.6)
- EBIT excluding one-off items* EUR 4.8 million (1.7)

**Q3 highlights**
- Customers’ cost savings resulted in reduced R&D spending and insourcing
- Improved profitability due to recent cost reductions
- Short-term fluctuation in demand anticipated to continue while planned cost reductions are expected to take place late in Q4 and early 2014

*) Excluding capital gains, impairments and restructuring costs

**Industry Groups**

- **Product Development Services**
- **Financial Services**
- **Manufacturing, Retail and Logistics**
- **Public, Healthcare and Welfare**
- **Telecom, Media and Energy**
Financial Services

Customer sales
- EUR 83 million (85), -2%
- Growth adjusted for divestments 7%

Sales split by service line

<table>
<thead>
<tr>
<th></th>
<th>1-9/13</th>
<th>1-9/12</th>
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<td>MS</td>
<td>43%</td>
<td>(39)</td>
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<tr>
<td>CSI</td>
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<tr>
<td>IP</td>
<td>42%</td>
<td>(45)</td>
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Q3 highlights
- Ample IT transformation project opportunities
- Healthy demand for industry-specific solutions, particularly in Cards and Payments
- Sales of ICT infrastructure services impacted by strong price competition and ongoing transformation programmes
- Fidenta divested on 1 July while some of the related business will continue within Tieto

Manufacturing, Retail and Logistics

Customer sales
- EUR 70 million (78), -10%
- Growth adjusted for divestments -9%

Sales split by service line

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<td>(41)</td>
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<td>IP</td>
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Q3 highlights
- Sales to retail continued to slide, partly due to lower prices in some large contracts
- In manufacturing sales excluding divestments and non-recurring income were flat
- Comparison figure for sales in 2012 included EUR ~3 million in non-recurring income
Public, Healthcare and Welfare

Customer sales
- EUR 96 million (100) -4%
- Growth adjusted for divestments 1%

Sales split by service line

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<td>30%</td>
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Q3 highlights
- Sales declined in Finnish public sector due to reduced central government spending and prolonged decision-making
- In Sweden, sales excl. currency effect to public sector at the previous year’s level
- Activity in healthcare sector in Sweden and Finland remained good partly due to national programmes

Customer sales
- EUR 96 million (100) -4%
- Growth adjusted for divestments 1%

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Q3 highlights
- Most segments saw negative development, oil and gas segment (hydrocarbon accounting) continued to grow
- Lower volumes in consulting and system integration services for telecom operators continued

Telecom, Media and Energy

Customer sales
- EUR 63 million (86), -26%
- Growth adjusted for divestments -12%

Sales split by service line

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<td>45%</td>
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<tr>
<td>1-9/12</td>
<td>15%</td>
<td>57%</td>
<td>28%</td>
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Q3 highlights
- Most segments saw negative development, oil and gas segment (hydrocarbon accounting) continued to grow
- Lower volumes in consulting and system integration services for telecom operators continued
Cost-efficiency programme in 2013

Tieto aims to reduce up to 1340 positions globally

- Managed Services 300
- Consulting and System Integration 500
- Product Development Services 400
- Industry Groups and Support Functions 140
- Total 1340

- Tieto aims at annualized savings of over EUR 50 million, including personnel negotiations started in May, August and October
  - Around EUR 8 million of savings are anticipated to affect operating profit for 2013, mainly in Q4
  - The full effect is expected to materialize as of the second quarter of 2014
  - Some EUR 45 million in restructuring costs expected to be booked in the 2013 result
  - Earlier, Tieto estimated that the restructuring costs would amount to about half of the 2012 level (EUR 57 million in 2012)

Competitive cost structure

2012 programme: savings target at EUR 60 million
2013 programme: savings target over EUR 50 million

<table>
<thead>
<tr>
<th>Year</th>
<th>H1</th>
<th>H2</th>
<th>2012 Group-level programme</th>
<th>2013 cost efficiency programme</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012 programme: Restructuring costs in 2012</td>
<td>2013 measures: Restructuring costs in 2013 ~EUR 45 million</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>EUR 3 million</td>
<td>EUR 22 million</td>
<td>EUR 30 million</td>
<td>EUR &gt;30 million</td>
</tr>
<tr>
<td></td>
<td>Personnel reductions: ~1 600 positions</td>
<td>Personnel reductions: 1 340 positions</td>
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<td></td>
<td>Full-year savings: EUR &gt;60 million</td>
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Savings related to new measures

Annualized savings of over EUR 50 million as of Q2
Strategy implementation phases distinctly addressing the opportunities and challenges in IT services and PDS

- Transition to industry driven structure
- Accelerate Consulting and System Integration expansion and Managed Services automation
- Implement competitive cost structure
- Focus on 2013 operating plan

2013
Build the foundation

2013-2014
Expand service scope

- Expand full life-cycle IT services
- Continue efficiency drive
- Execution of refined PDS strategy
- Future core market choices

2015-2016
Focus on future growth

- Seek growth in and beyond core markets
- Consider strategic inorganic opportunities

Full-year outlook for 2013 unchanged – sales guidance specified

Outside the telecom sector, Tieto expects its organic net sales development to be at the lower end of the forecast market growth range (Nordic IT services market: 0–2%). Net sales development in the telecom sector is expected to be weaker than in Tieto’s other sectors.

Tieto expects its profitability to continue to improve and full-year operating profit (EBIT) excluding one-off items to increase from the previous year’s level (EUR 138.8 million in 2012).

Previous sales guidance:
Tieto expects its organic net sales to develop in line with the growth in the market for IT services, with the exception of the weaker outlook in the telecom sector. (Tieto’s expectations for the market growth: 0–2%)
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  - Cloud services and IT legacy modernization enable more efficient delivery of IT services
  - Additional efficiency measures with the target of achieving over EUR 50 million in savings ongoing

Financial calendar 2014

- 6 February 2014: Interim report 4/2013 and financial statements for 2013
- 20 March 2014: Annual General Meeting
- 25 April: Interim report 1/2014
- 18 July: Interim report 2/2014
- 23 October: Interim report 3/2014
We are committed to develop enterprises and society through information technology

Q3 organic growth by Service Lines and Industry Groups

In Financial Services, Fidента was divested on 1 July. Some of the related business will continue within Tieto.
Top 10 customers Q3 2013

- City of Stockholm
- Ericsson
- Finnish Tax Administration
- IF Insurance
- Kesko
- NSN
- Nordea
- OP-Pohjola Group
- S-Group
- TeliaSonera

Major shareholders on 30 September

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Shares, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cevian Capital</td>
<td>15.1</td>
</tr>
<tr>
<td>Solidium Oy</td>
<td>10.1</td>
</tr>
<tr>
<td>Etera Mutual Pension Insurance Co.</td>
<td>4.1</td>
</tr>
<tr>
<td>Ilmarinen Mutual Pension Insurance Co.</td>
<td>3.1</td>
</tr>
<tr>
<td>OP-Pohjola Group Central Cooperative</td>
<td>3.1</td>
</tr>
<tr>
<td>Swedbank Robur fonder</td>
<td>2.7</td>
</tr>
<tr>
<td>Varma Mutual Pension Insurance Co.</td>
<td>2.1</td>
</tr>
<tr>
<td>The State Pension fund</td>
<td>1.1</td>
</tr>
<tr>
<td>Nordea funds</td>
<td>0.9</td>
</tr>
<tr>
<td>OP funds</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>10 largest shareholders</strong></td>
<td><strong>43.3</strong></td>
</tr>
<tr>
<td><strong>Nominee registered</strong></td>
<td><strong>34.9</strong></td>
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Based on the ownership records of Euroclear Finland Oy and Euroclear Sweden AB.