Continued profitability improvement – encouraging growth in IT services

25 April 2014

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Q1 2014 in brief

Continued profitability improvement – encouraging growth in IT services

- In IT services, organic growth in local currencies at 3%
- Improved performance in Consulting and System Integration and Managed Services
- Volatility in Product Development Services continues
Market development

- Tieto expects the Nordic overall market to grow by around 2% in 2014
  - Clients continue to look for ways to apply new technologies to achieve additional cost savings
  - Longer-term opportunities for the renewal of old legacy systems and transformation into new platforms
  - Healthy demand in application outsourcing, strong price competition
  - In addition to traditional application outsourcing, good opportunities to modernize application platforms

- Trends like mobility, cloud, big data and social enable the emergence of new services providing high level of digital experience and efficiency of back-end processes.

- Double-digit growth for customer experience management, mobility and cloud services while the traditional IT services market is likely to decline
Technology changes drive new types of services

Tieto’s growth drivers in Q1
• CSI growth areas posting double-digit growth
  • Customer experience management
  • Transformation consulting
  • Enterprise applications
• Cloud services growing by 18% q-on-q, or 89% y-on-y

Traditional services down in Q1
• Infrastructure management
• Application management

Financial development
Q1 2014 key figures

Net sales
- EUR 387 (424) million, -8.7%, organic growth in local currency -1.4%
  - Divestments EUR 21 million
  - Currency EUR -11 million
- In IT services, organic growth in local currencies up by 3.3%

EBIT
- EBIT EUR 34.0 (29.3) million, 8.8% (6.9%)
  - EUR 0.7 million restructuring costs
  - EUR 0.2 million capital gain
- EBIT excluding one-off items* EUR 34.5 (31.0) million, 8.9% (7.3)

Order backlog
- Order backlog EUR 1 582 (1 468) million, divestments impact EUR 34 million in comparison figure
- Total Contract Value EUR 402 (346) million
- Book-to-bill 1.0 (0.9)

Earnings per share
- EUR 0.34 (0.30)
- EUR 0.34 (0.32), excluding one-off items*

*) Excluding capital gains, impairments and restructuring costs

Quarterly development

Net sales
- MEUR
- Q1/14: 403
- Q2/13: 398
- Q3/13: 359
- Q4/13: 403
- Q1/14: 386

EBIT excluding one-off items
- MEUR
- Q1/13: 31.0
- Q2/13: 30.6
- Q3/13: 37.5
- Q4/13: 42.0
- Q1/14: 34.5

Number of full-time employees
- MEUR
- Q1/13: 15845
- Q2/13: 14933
- Q3/13: 14778
- Q4/13: 14318
- Q1/14: 14102

Net cash flow from operations
- MEUR
- Q1/13: 50.0
- Q2/13: 10.7
- Q3/13: 40.8
- Q4/13: 57.5
- Q1/14: 50.0

* Offshore ratio
  - IT Services 41.8% (38.3%)
  - PDS 60.4% (57.9%)

- Number of personnel down by a net amount of 1 743

- employees
**Organic growth in local currencies by Service Lines and Industry Groups**

- **Service Lines**
  - Managed Services: 120 (Q1/2013) to 130 (Q1/2014)
  - Consulting and System Integration: 101 (Q1/2013) to 100 (Q1/2014)
  - Industry Products: 104 (Q1/2013) to 106 (Q1/2014)
  - Product Development Services: 78 (Q1/2013) to 61 (Q1/2014)

- **Industry Groups (IT services)**
  - Financial Services: 79 (Q1/2013) to 85 (Q1/2014)
  - Manufacturing, Retail and Logistics: 75 (Q1/2013) to 80 (Q1/2014)
  - Public, Healthcare and Welfare: 101 (Q1/2013) to 103 (Q1/2014)
  - Telecom, Media and Energy: 70 (Q1/2013) to 69 (Q1/2014)

Some business in a joint venture transferred to Tieto, comparable growth 5%

**Competitive cost structure**

2013 programme concluded: annualized savings of over EUR 50 million

**Personnel reductions:**
- 1,200 positions in total
- 880 materialized in 2013, over 300 in H1

**Estimated profit improvement impact (y-o-y) in total EUR 50 million**

**Restructuring costs** in 2013 cover over 1,200 job cuts

- EUR 49 million
Managed Services

Customer sales
- EUR 127 (120) million, up by 6%
- Organic growth in local currencies 9%, comparable growth around 5% (*)

EBIT
- EBIT EUR 10.9 (0.7) million, 8.5% (0.6%)
- EBIT excluding one-off items* EUR 10.7 million (0.3), 8.4% (0.3%)

Q1 highlights
- The market for transforming ICT infrastructure to cloud-based environments active
- Cloud services sales grew by 18% (q-on-q) to EUR 7 million, close to 20% of MS order intake
- Growth partly attributable to an internal transfer of some business in Tieto’s joint venture in the finance sector (*)
- Good volume development, efficiency improvements and an increase of 3% in offshore rate resulted in positive profitability improvement

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

Customer sales
- EUR 100(108) million, down by 8%
- Organic growth in local currencies -1%

EBIT
- EBIT EUR 11.1(3.8) million, 11.1% (3.5%)
- EBIT excluding one-off items* EUR 11.2 (5.1) million, 11.2% (4.7%)

Q1 highlights
- Healthy growth and order intake in customer experience management, enterprise applications and transformation consulting
- Reduced revenues in traditional application management
- Continued challenges in Finnish public sector and telecom sector
- Substantial improvement in the utilization rate was the main contributor to the profit improvement.

Industry Products

Customer sales
- EUR 100 (109) million, down by 8%
- Organic growth in local currencies 1%

EBIT
- EBIT EUR 15.5 (17.6) million, 15.4% (16.1%)
- EBIT excluding one-off items* EUR 15.4 (17.6) million, 15.4% (16.1%)

Q1 highlights
- Mobility and investments in customer experience management drive investments
- Good development in the maintenance area continued
- Strong growth in the forest product, finance and healthcare and welfare sector slightly up
- Comparable margin was at the previous year’s level
  - Comparability of operating margin affected by the new IFRS treatment of Fidenta’s divested business

*) Excluding capital gains, impairments and restructuring costs
Customer sales

- EUR 60 (86) million, down by 30%
- Organic growth in local currencies -21%

EBIT

- EBIT EUR 1.1 (9.3) million, 1.9% (10.8%)
- EBIT excluding one-off items* EUR 1.6 (10.0) million, 2.6% (11.6%)

Q1 highlights

- Customers’ cost savings and insourcing strategies continue to put pressure on sales
- Over ten new customer wins which still have a limited impact on financials
- Strong fluctuations in demand are expected to continue and sales for the full year to decline from the 2013 level
- Efficiency improvement actions will continue
Financial Services

Customer sales
- EUR 83 (80) million, up by 4%
- Organic growth in local currencies 8%, comparable growth around 2%)

Sales split by service line

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<th>Q1/14</th>
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<td>MS</td>
<td>44%</td>
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<td>CSI</td>
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<td>IP</td>
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Q1 highlights
- Cost cutting and modernization the key drivers in the Nordic market, especially in Finland
- Infrastructure outsourcing and front-end services key revenue drivers
- Growth is partly attributable to the transfer of some business in joint ventures (*)

Manufacturing, Retail and Logistics

Customer sales
- EUR 79 (76) million, up by 3%
- Organic growth in local currencies 6%

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Q1 highlights
- Cost savings and the efficiency improvements in demand supply chain are important drivers for initiating new IT projects
- Several new agreements concluded during the past months contributed to growth
- Good development in the industry-specific product for forest segment and retail sector

*) Excluding capital gains, impairments and restructuring costs
Public, Healthcare and Welfare

Customer sales
- EUR 100 (107) million, down by 6%
- Organic growth in local currencies 1%

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Q1 highlights
- Public sector in Sweden was growing
- Healthcare and welfare sector sales slightly up
- Sales decline in Finnish public sector continued; the reorganization of the central government ICT Services Centre may have postponed some development activities

Telecom, Media and Energy

Customer sales
- EUR 65 (74) million, down by 12%
- Organic growth in local currencies -2%

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Q1 highlights
- Oil&gas and utilities segments were slightly growing
- Sales in telecom sector organically down by 3%
- Media sector remained challenging
Our way forward

2012
Build the foundation

2013
Execute the structure and efficiency

2014
Reorienting for growth

2015
Accelerate growth portfolio

2016+
Expand geographies

Priorities for 2014
- Modernizing our customers
- Sales focus and new customer wins
- Launch new competitive services
- Improve customer experience and quality
- Simplify and drive efficiency

Reorienting for growth – investments in high-growth offerings increasing

Customer experience management
Creating competitive advantage by excelling customer interaction for our clients

Industrial Internet
Supporting customers’ business by extending from pure equipment sales to services

Lifecare
Leading Nordic industry solution for the healthcare and welfare sector

Selected industry products: financial services, supply chain management, oil & gas

Cloud services, e.g. Tieto Cloud Server and Tieto Productivity Cloud

Modernization of services in application and infrastructure management
Performance improvement in 2014

- Sales development in 2014 is subject to customers’ IT spend, service focus and price development
  - In IT services, the company’s objective is to organically grow in line with the market
  - In Product Development Services, sales expected to decline in the full year

- New technologies and standardization drive services towards less labour-intensive solutions

- Based on the current estimate for 2014, restructuring anticipated to be around half of the previous year’s level
  - In the short term, restructuring needs will be based on potential overcapacity in selected businesses and in the longer run, on the need to realign the company’s competence base.

Full-year outlook for 2014

Tieto expects its full-year operating profit (EBIT) excluding one-off items to increase from the previous year’s level (EUR 141.2 million in 2013).
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- Improved performance in Consulting and System Integration and Managed Services
- Volatility in Product Development Services continues

We are committed to develop enterprises and society through information technology
Appendix

Top 10 customers 2014

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

Top 10 customers based on sales in alphabetical order
### Financial calendar 2014

<table>
<thead>
<tr>
<th>Date</th>
<th>Report Title</th>
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<tbody>
<tr>
<td>18 July</td>
<td>Interim report 2/2014</td>
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<td>23 October</td>
<td>Interim report 3/2014</td>
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