Tieto Q4/2014
Solid profitability and strong cash flow

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Lasse Heinonen – CFO
Tanja Lounevira – Head of IR
Q4 2014 in brief

Solid profitability and strong cash flow

• Growth emerging in IT services driven by cloud services
• Increased investments in growth businesses
• High one-off restructuring costs in Product Development Services as guided
Nordic IT services market expected to grow by 2%

IT market affected by economic outlook

- Tieto expects the Nordic IT services market to grow by around 2% in 2015
- Positive outlook in the Swedish economy while the Finnish GDP continues to contract
- IT services market strongest in Sweden
- In infrastructure outsourcing, the market for traditional services flat
- Long-term growth (CAGR 2013–2018) in cloud services around 30% – market size still small

<table>
<thead>
<tr>
<th>Service</th>
<th>Demand and economic cycles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project services</td>
<td>More volatile</td>
</tr>
<tr>
<td>Application management</td>
<td>Less volatile short-term</td>
</tr>
<tr>
<td>Infrastructure outsourcing</td>
<td>Less volatile, even positive impact during downturn</td>
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</tbody>
</table>

Source: Nordea Markets, Economic Outlook, December 2014
Renewing services and competences

Tieto’s growth drivers
- Over 40% growth in Customer Experience Management (CEM) in 2014
- Industrial internet in start-up phase – first pilots ongoing
- Cloud services growing by 153% in 2014
- Healthcare growth at 9% in 2014

Development in traditional services follow the market trend
- Infrastructure management
- Application management

Proactive measures to improve service competitiveness announced in January
- Recruitments, e.g. data analysts, industry consultants, information architects and other CEM experts
- Planned reduction of 840 positions

Source: Multiple sources, Tieto estimates
Financial development
Q4 2014 key figures

Net sales
- EUR 403 (405) million, -0.5%, organic growth in local currency +0.9%
  - Divestments EUR 1 million
  - Currency EUR -9 million
  - In IT services, organic growth in local currencies 3.5%

EBIT
- EBIT EUR 9.5 (17.3) million, 2.4% (4.3%)
  - EUR 34.8 million restructuring costs
  - EBIT excluding one-off items* EUR 44.4 (42.0) million, 11% (10.4%)

Order backlog
- Order backlog EUR 1 784 (1 540) million
  - 50% (56) to be invoiced during 2015
  - Total Contract Value EUR 672 (551) million
  - Book-to-bill 1.7 (1.4)

Earnings per share and dividend proposal
- EPS EUR 0.09 (0.21)
- EPS EUR 0.47 (0.48), excluding one-off items*
- Dividend proposal EUR 1.00 (0.90) per share, additional dividend EUR 0.30

*) Excluding capital gains, impairments and restructuring costs
Quarterly development

Number of full-time employees and off-shore ratio

- Number of personnel down by a net amount of 598
- Offshore ratio: IT services 43.8% (41.3%) PDS 62.0% (60.2%)
Performance improvement continues across businesses

*) Utilization improvement, quality and offshoring
Organic growth in local currencies by Service Line and Industry Group

**Service Lines**

- **Managed Services**
  - Q4/13: 130
  - Q4/14: 131
  - Growth: 4%

- **Consulting and System Integration**
  - Q4/13: 102
  - Q4/14: 107
  - Growth: 8% / 2% (*Comparable growth 2%*).

- **Industry Products**
  - Q4/13: 111
  - Q4/14: 107
  - Growth: -1%

- **Product Development Services**
  - Q4/13: 63
  - Q4/14: 58
  - Growth: -13%

**Industry Groups (IT services)**

- **Financial Services**
  - Q4/13: 89
  - Q4/14: 90
  - Growth: 4%

- **Manufacturing, Retail and Logistics**
  - Q4/13: 81
  - Q4/14: 82
  - Growth: 3%

- **Public, Healthcare and Welfare**
  - Q4/13: 105
  - Q4/14: 115
  - Growth: 12%

- **Telecom, Media and Energy**
  - Q4/13: 68
  - Q4/14: 59
  - Growth: -11%
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
Managed Services

Customer sales
• EUR 131 (130) million, up by 1%
• Organic growth in local currencies 4%

EBIT
• EBIT EUR 8.2 (0.4) million, 6.2% (0.3)
• EBIT excluding one-off items*
  EUR 9.0 (9.0) million, 6.9% (6.9)

Q4 highlights
• Strong sustainable development throughout the year, also in Q4
• Cloud services drive growth – Q4 sales up by 184% vs 2013
  • In the full year, up by 153%
  • Represents 13% of MS sales in Q4
• Solid development in underlying operating margin continued
• Service competitiveness and automation programme initiated in January

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

**Customer sales**
- EUR 107 (102) million, up by 5%
- Organic growth in local currencies 8%, comparable growth 2%

**EBIT**
- EBIT EUR 10.4 (-1.6) million, 9.8% (-1.6)
- EBIT excluding one-off items* EUR 10.2 (7.7) million, 9.5% (7.6)

**Q4 highlights**
- Good growth in Customer Experience Management services, industry consulting and ERP-based solutions
- Reduced revenues in traditional application management
- Organic growth partly attributable to non-recurring items – comparable growth around 2%
- Healthy development in underlying operating margin continued
- Increased investments in CEM and AM standardization, offering development investments in early 2015 to be maintained at Q4 level
- Strong order backlog expected to contribute to growth later in 2015

*) Excluding capital gains, impairments and restructuring costs
Industry Products

Customer sales
- EUR 107 (111) million, down by 4%
- Organic growth in local currencies -1%

EBIT
- EBIT EUR 17.4 (28.3) million, 16.3% (25.5)
- EBIT excluding one-off items* EUR 19.6 (28.5) million, 18.3% (25.7)

Q4 highlights
- Financial Services sales in Eastern Europe down
  - Q4/2013 included a large delivery in Ukraine
- Weak demand in oil & gas sector reflected in sales
- Healthcare and welfare continued to grow
- Profitability declined from exceptionally strong levels in Q4/2013
  - Increased investments in offering development
  - Negative sales development and currency effect
- Challenges in Eastern Europe and oil and gas sector anticipated to continue in Q1

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

**Customer sales**
- EUR 58 (63) million, down by 8%
- Organic growth in local currencies -13%

**EBIT**
- EBIT EUR -4.4 (-1.3) million, -7.5% (-2.0)
- EBIT excluding one-off items*
  - EUR 11.9 (2.7) million, 20.5% (4.2), mainly driven by temporary commercial terms
    - Normalized margin expected to be below 10%

**Q4 highlights**
- Sales continued to decrease due to insourcing by one key customer
- Q1 sales expected to substantially reduce
  - Sales for the key customer are expected to account for less than 2% of the Group revenue in Q1
  - Cost base aligned in parallel with the reduction in business volumes
- Promising new customer wins, e.g. Samsung

*) 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 Q4
- EUR 90 (89) million, up by 2%
- Organic growth in local currencies 4%

Sales split by service line

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
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<tbody>
<tr>
<td>MS</td>
<td>45%</td>
<td>44%</td>
</tr>
<tr>
<td>CSI</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>IP</td>
<td>34%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Q4 highlights
- Good development with several large existing and new customers in the CSI and Managed Services
- In Industry Products, Financial Services sales in Eastern Europe down
  - Q4/2013 included a large delivery in Ukraine
- New major agreements with If Insurance and Veritas Pension Insurance

*) Excluding capital gains, impairments and restructuring costs
Manufacturing, Retail and Logistics

Customer sales Q4
- EUR 82 (81) million, up by 1%
- Organic growth in local currencies 3%

Sales split by service line

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<tr>
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<tr>
<td>MS</td>
<td>51%</td>
<td>48%</td>
</tr>
<tr>
<td>CSI</td>
<td>38%</td>
<td>41%</td>
</tr>
<tr>
<td>IP</td>
<td>11%</td>
<td>11%</td>
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</table>

Q4 highlights
- Good development attributable mainly to outsourcing activities
  - Strongest growth in the manufacturing sector
  - Increase in sales somewhat curbed by some expiring contracts, especially in the retail segment
- Strong order intake throughout H2/2014, contributing mainly in H2 2015
- New major agreements with Kesko and RAY

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

Customer sales Q4
- EUR 115 (105) million, up by 10%
- Organic growth in local currencies 12%, comparable growth 10%

Sales split by service line

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<tr>
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<tr>
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<tr>
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<td>24%</td>
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</tr>
<tr>
<td>IP</td>
<td>38%</td>
<td>39%</td>
</tr>
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</table>

Q4 highlights
- Healthy growth in both public sector in Finland and Sweden and healthcare and welfare
- In Finland, deliveries related to national interoperability to healthcare customers in the public sector to be completed in Q1
- Several new agreements, e.g. Finnish Parliament and Jämtland County Council

*) Excluding capital gains, impairments and restructuring costs

Customer sales adjusted
Net of divestement and acquisitions
Customer sales Q4
- EUR 59 (68) million, down by 14%
- Organic growth in local currencies -11%

Sales split by service line
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>MS</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>CSI</td>
<td>43%</td>
<td>44%</td>
</tr>
<tr>
<td>IP</td>
<td>38%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Q4 highlights
- Interest in starting new projects is low in all segments, the demand in oil and gas segment has remained weak
- In energy utilities, customers starting to prepare for regulatory changes and harmonization in the Nordics, delaying IT investments
- A number of new customer wins in energy utilities

*) Excluding capital gains, impairments and restructuring costs
Accelerating growth in focus

2012
Build the foundation

2013
Execute the structure and efficiency

2014
Reorienting for growth

2015
Accelerate growth portfolio
- Accelerate customer renewal through digitalization
- Scale growth businesses – CEM, Industrial internet, MS cloud, IPR
- Accelerate modernization AM and Infra
- Modernizing customers’ infra and apps
- Expand customer base in the Nordics
- Launch new cloud services
- Improve customer experience and quality
- Continue simplification and efficiency

2016+
Expand markets
- Expand proven growth bets beyond the Nordics
- New growth bets e.g. IPR

Accelerate customer renewal through digitalization
Scale growth businesses – CEM, Industrial internet, MS cloud, IPR
Accelerate modernization AM and Infra
Modernizing customers’ infra and apps
Expand customer base in the Nordics
Launch new cloud services
Improve customer experience and quality
Continue simplification and efficiency
IT service businesses progressing towards longer-term ambition

Note: 2016 describes the ambition set in 2012 (excl one-off items)
Targeted investments to accelerate growth
Investment level of EUR 50 million to be maintained in 2015 and new growth areas to be evaluated

Big and high growth market in the Nordics by 2020

- **Customer Experience Management**
  - Over 40% growth in CEM
  - Over EUR 20 million \(^\dagger\) sales in 2014

- **Industrial Internet**
  - CAGR ~50%, EUR >5B
  - Customer pilots and solution concepting (incl. IPR) ongoing, pipeline growing

- **Lifecare**
  - CAGR >4%, EUR ~1B
  - HCW around EUR 160 million sales in 2014

\(^\dagger\) Traditional services within the CEM practice excluded

\(\dagger\) \(\dagger\) \(\dagger\) \(\dagger\) \(\dagger\) \(\dagger\)

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 drivers in 2015

- In PDS, sales anticipated to decline in the full year
  - Impacted by the insourcing decision by one key customer – sales to the customer less than 2% (5) of the Group sales in Q1, contract ending in early Q2
  - Cost base planned to be adjusted in parallel with the reduction in business volumes
  - No major effect on total net cash flow due to the release of net working capital

- Profitability drivers in IT services
  - We aim to organically grow in line with the market
  - Gross savings of EUR 35 million, incl. measures started in 2014 and 2015
  - Recruitments of new talent in growth businesses
  - Investment levels (OPEX) in high-growth businesses maintained at least at the level of 2014
  - Restructuring costs for measures announced in January 2015 estimated to be EUR 35 million

Profitability drivers in IT services

<table>
<thead>
<tr>
<th>Sales growth</th>
<th>New hires</th>
<th>Salary inflation</th>
<th>Planned redundancies</th>
<th>EBIT 2015</th>
</tr>
</thead>
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<td>EBIT 2014</td>
<td></td>
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Guidance for 2015

Tieto expects its full-year operating profit (EBIT) excluding one-off items to increase from the previous year’s level (EUR 150.2 million in 2014).
Capital structure addressed – dividends increasing while maintaining flexibility to invest in growth

- Proposed dividend EUR 1.00 (0.90) per share, up by 11%
- An additional dividend of EUR 0.30 is proposed due to strong cash flow and targeted capital structure
- Dividend yield of 6%, or close to 5% excluding additional dividend

- Net debt/EBITDA to be maintained below 1.5 in the long run
- Strong balance sheet offers strategic flexibility for growth, incl. M&A
Q4 2014 in brief

Solid profitability and strong cash flow

- Growth emerging in IT services driven by cloud services
- Increased investments in growth businesses
- High one-off restructuring costs in Product Development Services as guided
Changing perspectives™
Appendix
We enable enterprises to reinvent business models through cloud services

- Pay-as-you-go / free services
- Flexible and alternative business models

Public cloud

Private / enterprise cloud

Traditional - on premise infra and applications

Modernization of infrastructure and applications

- Tieto Cloud Server
- Government Cloud
- Tieto Productivity Cloud
- SAP Dynamic Landscape
- Google
- Archiving as a Service
- Lifecare as a Service
- Mill-in-a-Box
- SmartUtility
Top 10 customers 2014

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