Tieto Q2/2015

Healthy growth in IT services – competitiveness strengthens further

22 July 2015

Kimmo Alkio – President and CEO
Lasse Heinonen – CFO
Tanja Lounevirta – Head of IR
Q2 2015 in brief

Healthy growth in IT services – competitiveness strengthens further

• IT services growth close to 3% – profit as expected
• Managed Services automation programme on track
• Acquisition of Software Innovation strengthens Tieto’s competitiveness
• Solid performance in Product Development Services
Market conditions unchanged – expected Nordic IT services market growth 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**
- **Finnish economy remains sluggish**
- IT services market strongest in Sweden
- 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>
</tr>
</tbody>
</table>

Source: Nordea Markets, Economic Outlook, updates as of June 2015
Emerging services continue to drive growth

Traditional services* In H1/2015 sales close to EUR 310 million, down by ~ 6%**

Emerging services In H1/2015 sales close to EUR 130 million, growth ~ 24%**

Over 20% (CAGR)

Over -5% (CAGR)

Emerging services continue to drive growth

IT become a strategic asset

- End-customers’ expectations rising faster than enterprises can evolve their business models
- Digital experience becoming an absolute requirement – resulting in a need to re-engineer businesses and IT

© Tieto Corporation
<table>
<thead>
<tr>
<th>Customer Experience Management</th>
<th>Industrial Internet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in offerings and recruitment of new talent</td>
<td>Full-service IT partner for HSB Living Lab, research project to design intelligent solutions for future living</td>
</tr>
<tr>
<td>Tieto and Varma launched the first mobile application in the pension sector</td>
<td>TeliaSonera together with Tieto launched the M2M in a Box service in Sweden</td>
</tr>
<tr>
<td>Tieto and Metsä Group launched the first eCommerce solution for forest owners</td>
<td>In 2015, investments anticipated to amount to EUR 3 million, cash flow negative</td>
</tr>
<tr>
<td><strong>Annual sales 2014:</strong> over EUR 20 million</td>
<td></td>
</tr>
<tr>
<td><strong>H1 growth in line with the market</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lifecare</th>
<th>Cloud services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good growth continued in Q2</td>
<td>Cloud offerings currently represent around 15% of Managed Services’ sales</td>
</tr>
<tr>
<td>Strong development in Sweden and Norway</td>
<td>Several transition projects ongoing</td>
</tr>
<tr>
<td>New application launches continue in 2015</td>
<td></td>
</tr>
<tr>
<td><strong>Annual sales 2014:</strong> EUR 160 million</td>
<td><strong>Annual sales 2014:</strong> around EUR 50 million</td>
</tr>
<tr>
<td><strong>H1 growth higher than the market</strong></td>
<td><strong>H1 growth:</strong> 108%</td>
</tr>
</tbody>
</table>
Financial development
Q2 2015 key figures

Net sales
- EUR 364 (386) million, -5.8%, organic growth in local currency -3.3%
- Currency EUR -5 million
- In IT services, organic growth in local currencies 2.7%

EBIT
- EBIT EUR 23.1 (21.5) million, 6.3% (5.6%)
- EUR 7.0 million restructuring costs
- Currency impact EUR 2 million
- EBIT excluding one-off items* EUR 30.1 (30.0) million, 8.3% (7.8%)

Order backlog
- Order backlog EUR 1 737 (1 550) million
- Total Contract Value EUR 340 (398) million
- Book-to-bill 0.94 (1.03)

Earnings per share
- EPS EUR 0.24 (0.23)
- EPS EUR 0.31 (0.32), excluding one-off items*

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

Net Sales

- Adjusted for divestments and acquisitions
- Net of divestments and acquisitions

Number of full-time employees and offshore ratio

- Number of personnel down by a net amount of 1,177
- Offshore ratio: IT services 44.9% (41.7%) PDS 55.4% (61.6%)

Net debt/EBITDA

Net cash flow from operations and capital expenditure

Number of personnel: 14,102, 14,126, 13,878, 13,720, 13,456, 12,949

Offshore ratio: IT services 44.9% (41.7%) PDS 55.4% (61.6%)
Organic growth in local currencies by Service Line and Industry Group

Service Lines

<table>
<thead>
<tr>
<th>Service Lines</th>
<th>Q2/14</th>
<th>Q2/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managed Services</td>
<td>132</td>
<td>132</td>
</tr>
<tr>
<td>Consulting and System Integration</td>
<td>97</td>
<td>102</td>
</tr>
<tr>
<td>Industry Products</td>
<td>97</td>
<td>100</td>
</tr>
<tr>
<td>Product Development Services</td>
<td>55</td>
<td>34</td>
</tr>
</tbody>
</table>

Industry Groups (IT services)

<table>
<thead>
<tr>
<th>Industry Groups</th>
<th>Q2/14</th>
<th>Q2/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>84</td>
<td>89</td>
</tr>
<tr>
<td>Manufacturing, Retail and Logistics</td>
<td>78</td>
<td>78</td>
</tr>
<tr>
<td>Public, Healthcare and Welfare</td>
<td>104</td>
<td>108</td>
</tr>
<tr>
<td>Telecom, Media and Energy</td>
<td>60</td>
<td>60</td>
</tr>
</tbody>
</table>

*) Comparable sales growth

- Managed Services: 1%*
- Consulting and System Integration: 6%
- Industry Products: 3%
- Product Development Services: -39%
- Financial Services: 6%
- Manufacturing, Retail and Logistics: 0%
- Public, Healthcare and Welfare: 4%
- Telecom, Media and Energy: -1%
## Service Lines

<table>
<thead>
<tr>
<th>Product Development Services</th>
<th>Financial Services</th>
<th>Manufacturing, Retail and Logistics</th>
<th>Public, Healthcare and Welfare</th>
<th>Telecom, Media and Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Products</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consulting and System Integration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managed Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Managed Services

Customer sales Q2
- EUR 131 (132) million, down by 1%
- Organic growth in local currencies 1%, or 4% excl. revenue recognized from equipment sales in 2014

EBIT
- EBIT EUR 3.1 (7.6) million, 2.4% (5.8)
- EBIT excluding one-off items* EUR 9.9 (7.6) million, 7.6% (5.8)

Q2 highlights
- Cloud services continue to drive growth
  - Q2 sales up by 92% vs 2014
  - Represents 15% of MS sales
- Comparison figure for 2014 includes around EUR 5 million in revenue recognized from equipment sales
- Automation programme on track
- Margin improvement primarily due to increased offshoring and reduced cost base
- Savings related to automation programme expected to materialize as from the third quarter

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

Customer sales Q2
- EUR 101 (97) million, up by 5%
- Organic growth in local currencies 6%

EBIT
- EBIT EUR 8.5 (6.1) million, 8.4% (6.3)
- EBIT excluding one-off items* EUR 8.7 (7.2) million, 8.6% (7.4)

Q2 highlights
- Good development in Customer Experience Management (CEM) services, industry consulting and ERP-based solutions
- Strong add-on sales while reduced revenues in traditional application management
- Comparison figure includes costs related to the termination of the Vitja project
- Offering development and new recruitments continued in Q2
- Savings related to service delivery industrialization expected to materialize as from the fourth quarter

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

Customer sales Q2
- EUR 98 (97) million, up by 1%
- Organic growth in local currencies 3%

EBIT
- EBIT EUR 10.8 (14.9) million, 11.0% (15.3)
- EBIT excluding one-off items* EUR 12.0 (15.2) million, 12.2% (15.6)

Q2 highlights
- Financial Services saw good demand, with the Card Suite posting strongest growth
- Positive development in healthcare & welfare and energy utilities, whereas demand in oil & gas and forestry remained weak
- Investments in offering development up by over EUR 3 million, mainly in Lifecare and Industrial Internet
- Additionally, negative currency changes affected profitability
- Q2 ended with good order backlog, H2 profitability expected to be seasonally stronger

*) Excluding capital gains, impairments and restructuring costs
Customer sales Q2
- EUR 33 (60) million, down by 44%
- Organic growth in local currencies -39%

EBIT
- EBIT EUR 5.7 (-2.3) million, 17.1% (-3.8)
- EBIT excluding one-off items* EUR 3.2 (3.7) million, 9.6% (6.1)

Q2 highlights
- Sales for current customer base remained stable
- Insourcing by one key customer, as announced in 2014
  - Projects ended in Q1 – in Q2/2014: 5% of Group sales
  - Cost base aligned in parallel with the reduction in business volumes
- Healthy cost structure for the existing business
- Normalized operating margin expected to level to a range below 10%
  - Q3 typically seasonally weaker

Change in PDS leadership
- Tom Leskinen appointed Head of PDS

*) 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

Industry Products

Consulting and System Integration

Managed Services
Financial Services

Customer sales Q2
- EUR 88 (84) million, up by 4%
- Organic growth in local currencies 6%, or 10% excluding revenue recognized from equipment sales

Sales split by service line

<table>
<thead>
<tr>
<th></th>
<th>Q2/2015</th>
<th>Q2/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>MS</td>
<td>47%</td>
<td>48%</td>
</tr>
<tr>
<td>CSI</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>IP</td>
<td>32%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Q2 highlights
- Healthy development in all service lines
- In banking segment, good development for industry products, especially Card Suite and Virtual Account Management
- In insurance segment, Managed Services drive growth
Customer sales Q2
- EUR 77 (78) million, at previous year’s level
- Sales in local currencies at the Q2/2014 level

Sales split by service line

<table>
<thead>
<tr>
<th>Service Line</th>
<th>Q2/2015</th>
<th>Q2/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>MS</td>
<td>52%</td>
<td>52%</td>
</tr>
<tr>
<td>CSI</td>
<td>38%</td>
<td>38%</td>
</tr>
<tr>
<td>IP</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Q2 highlights
- Strong development in manufacturing sector due to several new agreements while retail sector experienced negative development
- Transition projects in Managed Services affect sales and profitability
- Industrial Internet in an investment phase
Public, Healthcare and Welfare

Customer sales Q2
- EUR 107 (104) million, up by 2%
- Organic growth in local currencies 4%

Sales split by service line

<table>
<thead>
<tr>
<th></th>
<th>Q2/2015</th>
<th>Q2/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>MS</td>
<td>37%</td>
<td>38%</td>
</tr>
<tr>
<td>CSI</td>
<td>25%</td>
<td>24%</td>
</tr>
<tr>
<td>IP</td>
<td>38%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Q2 highlights
- Growth mainly in healthcare and welfare sector
  - Driven, for example, by mobile services for elderly care and eServices in the welfare segment
- Sweden and Norway were the strongest markets
- Acquisition of Software Innovation support public sector digitalization
Telecom, Media and Energy

Customer sales Q2
- EUR 58 (60) million, down by 3%
- Organic growth in local currencies -1%

Sales split by service line

<table>
<thead>
<tr>
<th></th>
<th>Q2/2015</th>
<th>Q2/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>MS</td>
<td>17%</td>
<td>19%</td>
</tr>
<tr>
<td>CSI</td>
<td>45%</td>
<td>42%</td>
</tr>
<tr>
<td>IP</td>
<td>38%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Q2 highlights
- Business starting to stabilize
- Development in telecom and energy utilities segments positive
- In telecom, sales growth is attributable to customers’ transformation programmes
- Demand in the oil and gas segment is still weak and IT investment levels are low
Investments in offering development and recruitment of new talent to accelerate growth

New growth areas to be evaluated

- Full-year investments (OPEX) in high-growth businesses expected to exceed the 2014 level
- In H2/2015, development costs expected to remain at least at the 2014 level

Offering development and internal development* in IT services, EUR million

Q1  Q2  Q3  Q4

2014  2015

Recruitments in 2015
- Industry consultants
- Digital architects
- UX designers
- Technical specialists
- Software developers

Net recruitments in H1 2015
- IT services new roles over 400 positions in H1
- Offshore ratio in IT services up to 44.9% (41.7)

*) related to MS automation programme
## Performance drivers 2015

### Performance drivers in IT services

<table>
<thead>
<tr>
<th>Performance drivers in IT services</th>
<th>H1 Impact on profitability&lt;sup&gt;1)&lt;/sup&gt;</th>
<th>H2 Impact on profitability&lt;sup&gt;1)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales growth</td>
<td><img src="image" alt="Green" /></td>
<td><img src="image" alt="Green" /></td>
</tr>
<tr>
<td>Increase in offering development</td>
<td><img src="image" alt="Red" /></td>
<td><img src="image" alt="Red" /></td>
</tr>
<tr>
<td>Costs for new hires in growth businesses</td>
<td><img src="image" alt="Red" /></td>
<td><img src="image" alt="Red" /></td>
</tr>
<tr>
<td>MS automation programme investments</td>
<td><img src="image" alt="Red" /></td>
<td></td>
</tr>
<tr>
<td>Cost savings in MS and CSI</td>
<td><img src="image" alt="Green" /> <img src="image" alt="Green" /></td>
<td><img src="image" alt="Green" /> <img src="image" alt="Green" /></td>
</tr>
<tr>
<td>Currency fluctuations</td>
<td><img src="image" alt="Red" /></td>
<td>n/a</td>
</tr>
</tbody>
</table>

<sup>1)</sup> Illustrative, in comparison with the previous year

### Performance drivers for Product Development Services

- Sales decline related to insourcing decision by one key customer
- Expansion of customer base and new customer wins
- Adjustments in cost base
- Temporary commercial terms related to the insourcing decision by one key customer visible in Q1 – no impact in Q2
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).
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, industry-specific software products
  - Accelerate modernization in Application Management and Infrastructure services

2016+
Expand markets
  - Expand proven growth businesses beyond the Nordics
  - New growth areas, e.g. industry-specific software products
Tieto acquires Software Innovation to accelerate its role as the leading digitalization advisor in the Nordic countries

- Strengthens Tieto’s position as the preferred partner for digitalization in the Nordic countries
- Extends our scalable software-based businesses
- Strengthens our presence especially in Norway
- Expected to be value accretive and adds to growth potential in both Software Innovation’s and Tieto’ customer base

**Software Innovation**
- Leading software company in the Enterprise Content Management (ECM) business in the Nordic countries
- 2014 sales EUR 41 million and operating margin (EBIT) 12.5%
- Employees: Approx. 350
- 75% of revenue in Norway, ~12% in Denmark and ~12% in Sweden
- Enterprise Value estimated to amount to NOK 623 million

**ECM market**
- Nordic market around EUR 350 million - the public sector represents over 50%
- 5–8% annual growth rate – one of the fastest growing software market segments
- Existing Tieto market share of around 7% to some 20%
Q2 2015 in brief

Healthy growth in IT services – competitiveness strengthens further

- IT services growth close to 3% – profit as expected
- Managed Services automation programme on track
- Acquisition of Software Innovation strengthens Tieto’s competitiveness
- Solid performance in Product Development Services
Changing perspectives™
Appendix
Top 10 customers Q2 2015

- City of Stockholm
- Ericsson
- IF Insurance
- Kesko
- Nordea
- OP-Pohjola Group
- S-Group
- Region Skåne
- TeliaSonera
- UPM-Kymmene