

Tieto Q3/2015

Solid performance and accelerated growth in IT services

22 October 2015

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The Tieto logo is displayed in white on a blue triangular background in the bottom right corner. The logo consists of the word "Tieto" in a bold, sans-serif font, with the letters "T", "i", and "e" being significantly larger than the letters "o" and "t".

Tieto

Q3 2015 in brief

Solid performance and accelerated growth in IT services

- Organic growth in IT services 5% - Industry Products and add-on sales as key drivers
- Solid profitability in IT services while investing in new services and competences
- Product Development Services business successfully stabilized

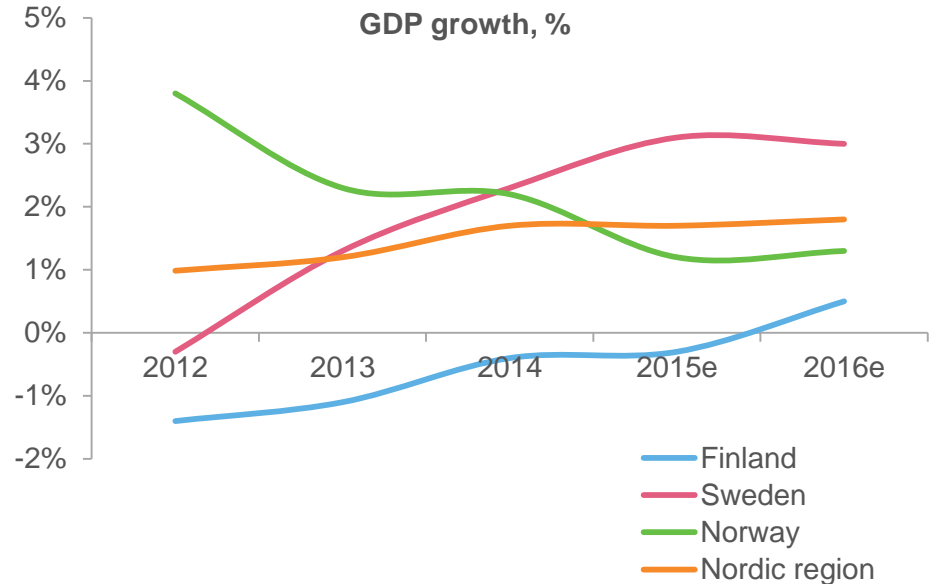
In 2015, IT market relevant for us expected to grow by 2%

Sluggish growth in Finland

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

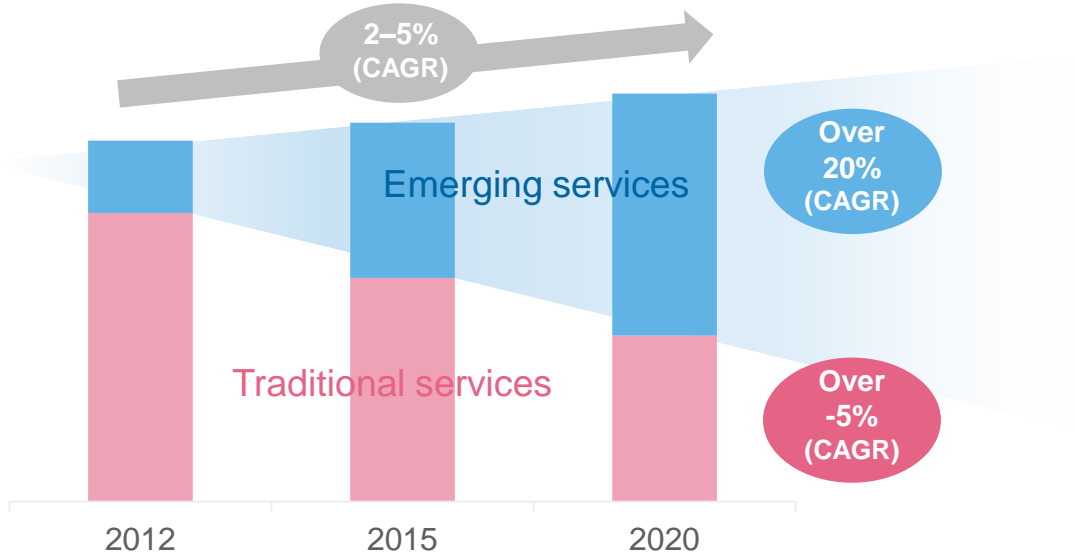
Service	Demand and economic cycles
Project services	More volatile
Application management	Less volatile short-term
Infrastructure outsourcing	Less volatile, even positive impact during downturn



Source: Nordea Markets, Economic Outlook, September 2015

Emerging services continue to drive growth

IT services market development



Expected market growth of emerging services (CAGR):

- CEM ~20%
- Industrial Internet ~50%
- Lifecare >4%
- Cloud ~30%

Tieto's business mix

Growth businesses

- Customer Experience Management
- Industrial Internet
- Lifecare
- Cloud

22%
growth*

*In 1-9/2015 sales close to EUR 190 million
20% of IT services sales*

Other IT services and products, e.g.

- Consulting and system integration
- Industry-specific software

5%
growth*

*In 1-9/2015 sales close to EUR 320 million
33% of IT services sales*

Traditional services

- Infrastructure services
- Application management

-5%
decline*

*In 1-9/2015, sales around EUR 445 million
47% of IT services sales*

*) Growth in local currencies

Well positioned to become the preferred digitalization partner

Customer Experience Management



- Focus shifting from offering development to project deliveries
 - Full solution framework, incl. 3rd party alliances, for FS and Retail completed
- Strong sales pipeline and number of customers doubled
- New co-creation and innovation concepts
- Annual sales 2014: over EUR 20 million
- Growth (YTD): over 20%

Industrial Internet



- Solution productization near completion
 - M2M in a box, Real Time Factory, Vital (fleet maintenance management), eSense (HCW)
- References include TeliaSonera, Valmet, a number of HCW clients in Norway and Sweden
- Going forward, focus on gaining market share
- In 2015, investments anticipated to amount to EUR 3 million, cash flow negative

Lifecare



- Good growth continued in Q3
- Strong development in Sweden and Norway
- New application launches continue

- Annual sales 2014: EUR 160 million
- Growth (YTD): 6%

Cloud services



- Currently around 17% of Managed Services' sales
- New launches - enhanced cloud portfolio with the latest launches very competitive
 - Tieto Enterprise Cloud Orchestrator (TECO)
 - Database as a Service moves Oracle databases to the cloud
- Annual sales 2014: around EUR 50 million
- Growth (YTD): 75%

Software Innovation acquisition completed

Acquisition rationale

- 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

Integration going forward as expected

- Finnish and Swedish operations established to capture opportunities on respective markets
- State Treasury in Finland as the first joint customer
- Financials integrated into Tieto figures as of September
 - Sales of EUR 3 million in Q3
 - EBIT impact on Q3 marginal as expected

Financial development



Q3 2015 key figures

Net sales

- EUR 335 (346) million, -3.2%, organic growth in local currency -0.6%
 - Currency EUR -8 million
- In IT services, organic growth in local currencies 5.1%

EBIT

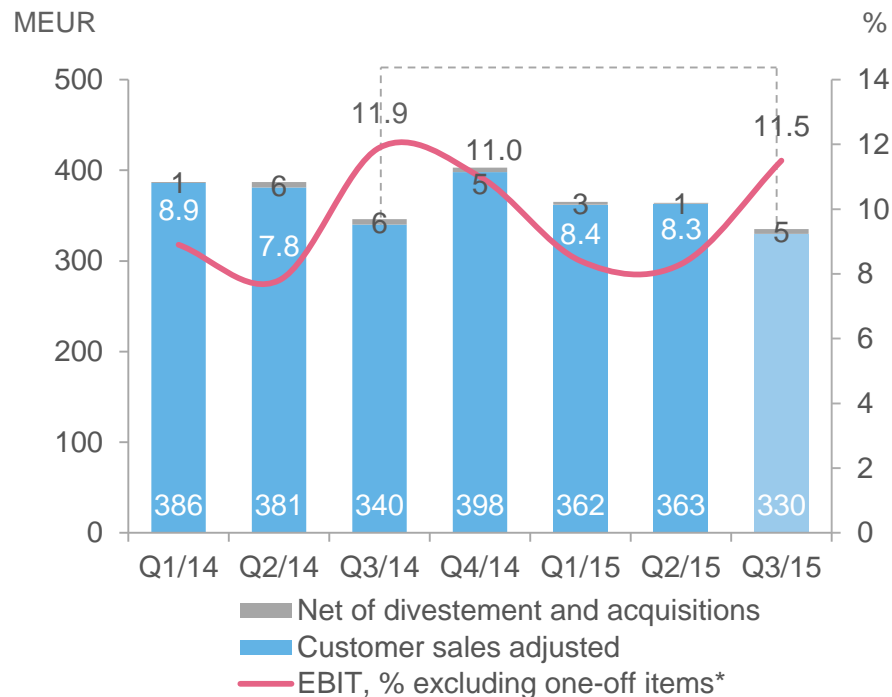
- EBIT EUR 41.4 (-3.9) million, 12.4% (-1.1%)
 - EUR 3.3 million restructuring costs
 - EUR 6.1 million capital gains
- EBIT excluding one-off items* EUR 38.6 (41.3) million, 11.5% (11.9%)
- EBIT excluding one-off items* in IT services 36.8 (36.8) million, 12.0% (12.5%)

Order backlog

- Order backlog EUR 1 864 (1 558) million
- Total Contract Value EUR 490 (395) million
- Book-to-bill 1.46 (1.14)

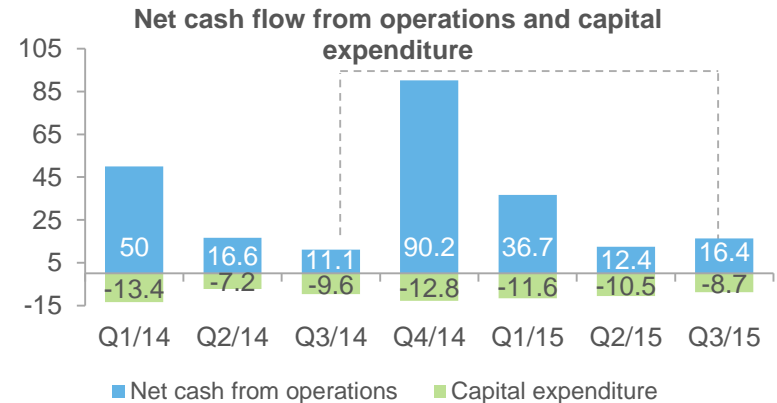
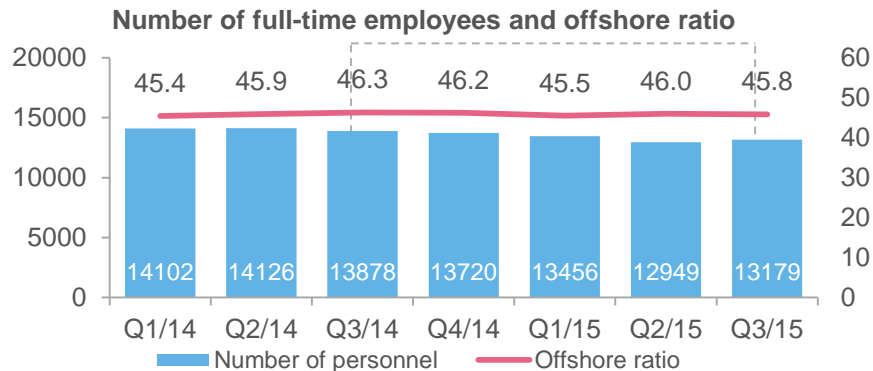
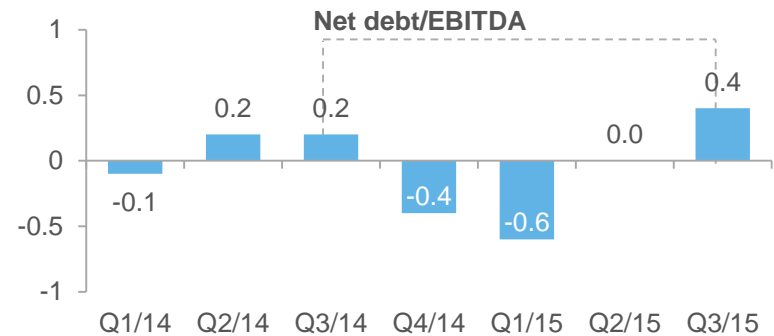
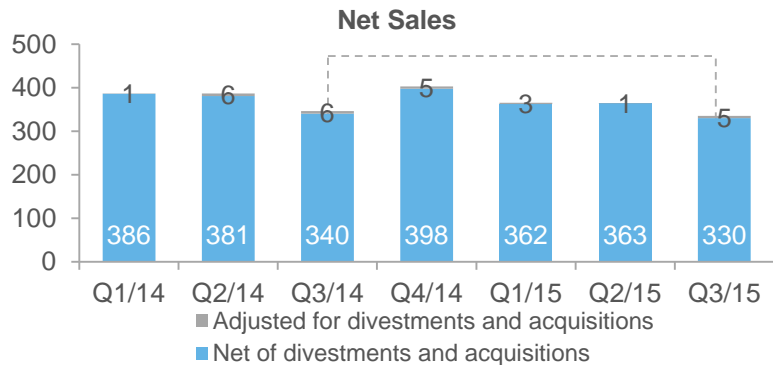
Earnings per share

- EPS EUR 0.40 (-0.17)
- EPS EUR 0.38 (0.43), excluding one-off items*



*) Excluding capital gains, impairments and restructuring costs

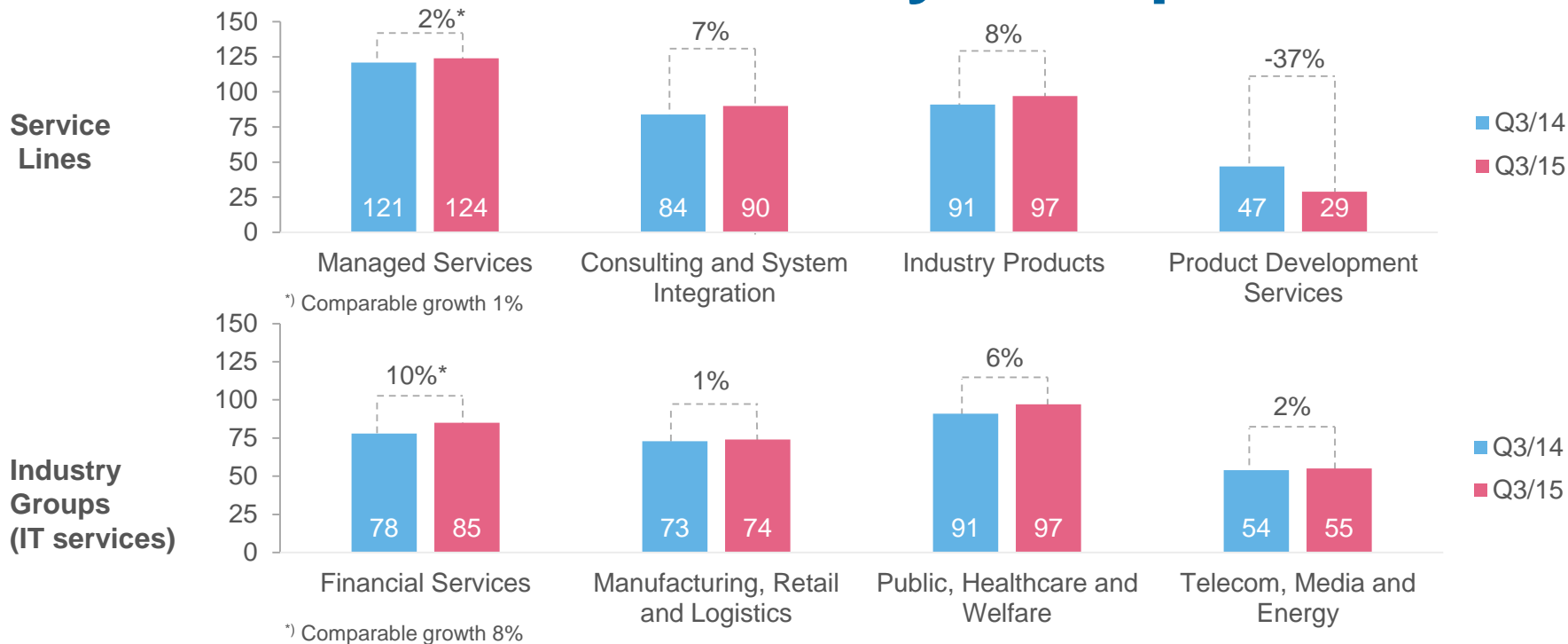
Quarterly development



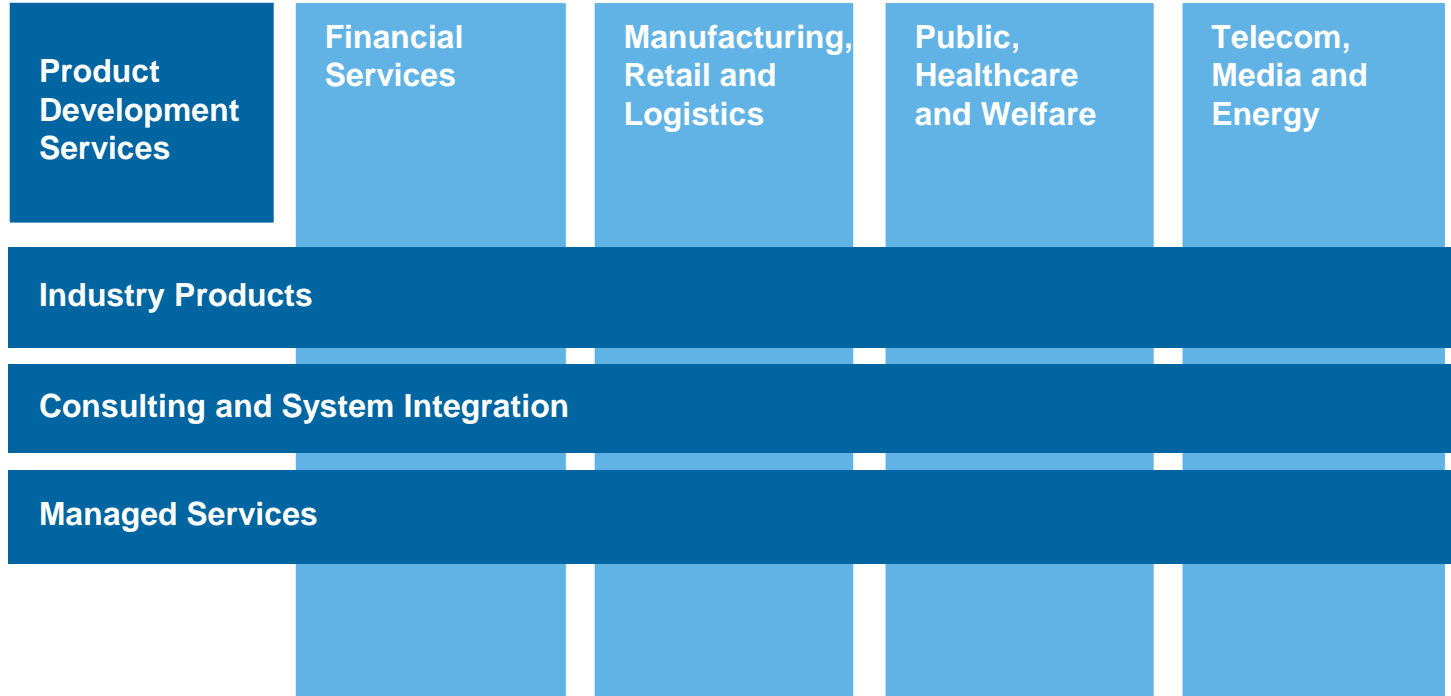
Number of personnel down by a net amount of 699

Offshore ratio: IT services 44.4% (43.0%) PDS 58.2% (61.3%)

Organic growth in local currencies by Service Line and Industry Group



Service Lines



Managed Services

Customer sales Q3

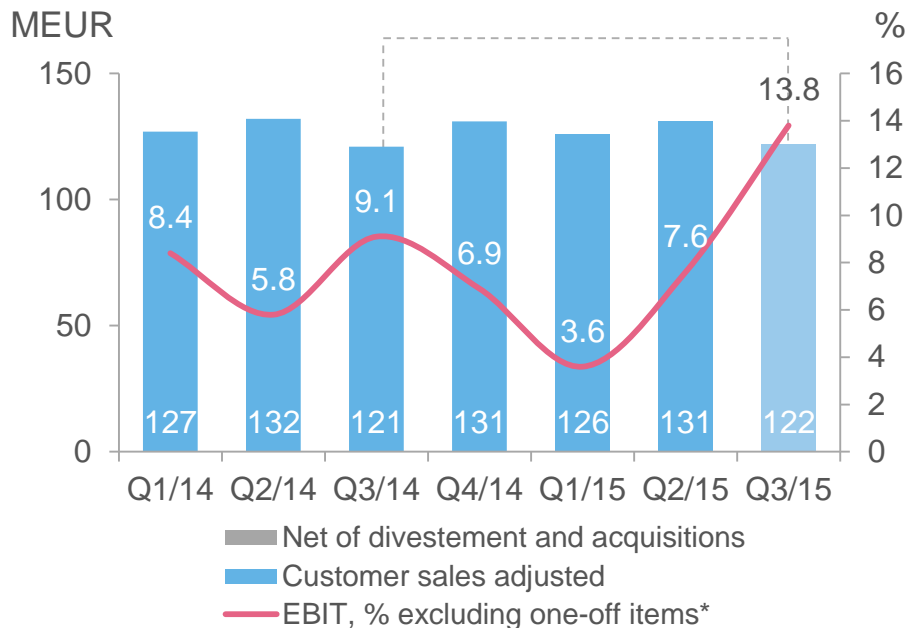
- EUR 122 (121) million, up by 1%
- Organic growth in local currencies 2%, comparable growth 1%**

EBIT

- EBIT EUR 16.7 (11.0) million, 13.7% (9.0)
- EBIT excluding one-off items*
EUR 16.8 (11.1) million, 13.8% (9.1)

Q3 highlights

- Cloud services Q3 sales up by 45% vs 2014, representing 17% of MS sales
- Automation drives performance improvement
- Tieto Enterprise Cloud Orchestrator (TECO) and Database as a Service launched
- Savings related to automation programme to contribute to performance also in Q4



*) Excluding capital gains, impairments and restructuring costs

**) Joint venture business transfer to Tieto

Consulting and System Integration

Customer sales Q3

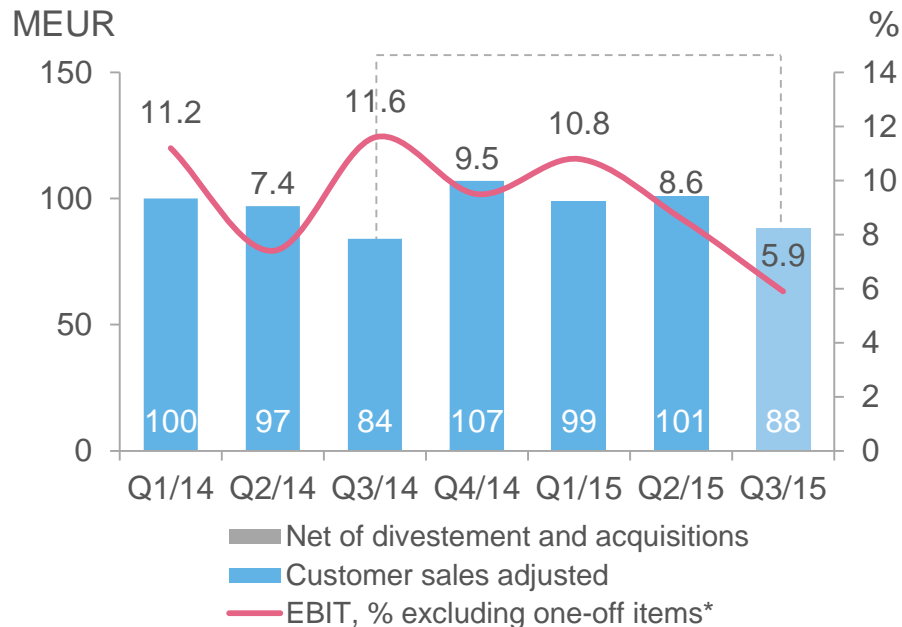
- EUR 88 (84) million, up by 5%
- Organic growth in local currencies 7%

EBIT

- EBIT EUR 4.4 (7.2) million, 5.0% (8.6)
- EBIT excluding one-off items*
EUR 5.3 (9.7) million, 5.9% (11.6)

Q3 highlights

- Investing in emerging services and AM industrialization driving temporary lower profitability
 - Continued investments in new services and competences, e.g. CEM and Industry Consulting
 - In-advance offshore recruitments for ADM while savings related to redundancies to materialize in 2016
- Strong demand in industry consulting and ERP-based solutions while reduced revenues in traditional application management
- Topline growth supported by add-on sales, partly lower-margin billing-through
- Q4 performance expected to be close to 2014 level



*) Excluding capital gains, impairments and restructuring costs

Industry Products

Customer sales Q3

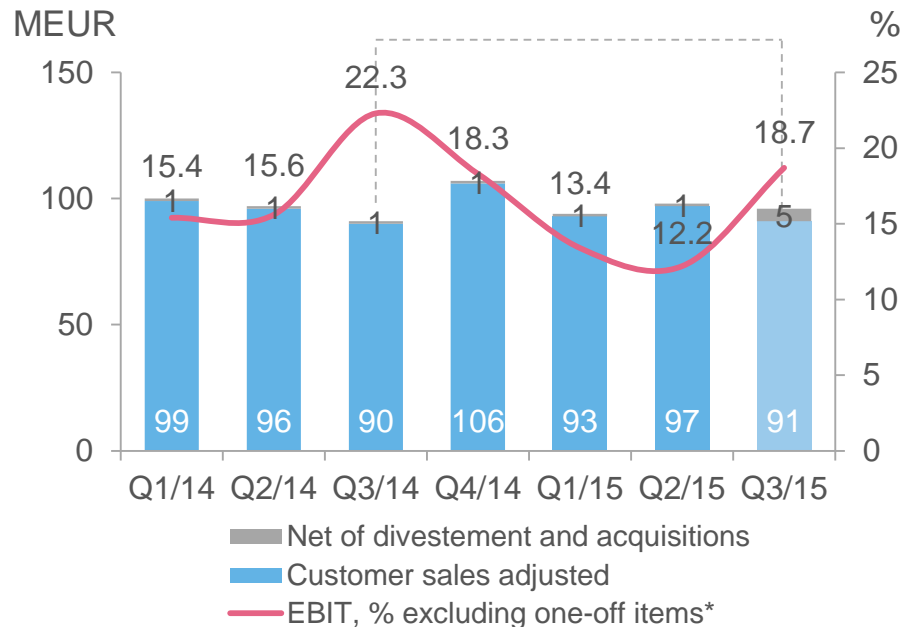
- EUR 96 (91) million, up by 6%
- Organic growth in local currencies 8%

EBIT

- EBIT EUR 24.0 (20.3) million, 24.9% (22.4)
- EBIT excluding one-off items*
EUR 18.0 (20.2) million, 18.7% (22.3)

Q3 highlights

- Strong organic growth in Financial Services and Lifecare, 13% and 8% respectively
- Software Innovations added sales by EUR 3 million while marginal EBIT impact
- Demand in oil & gas and forest remained weak
- Profitability affected by offering development and currencies
 - Investments in offering development, mainly in Lifecare and Industrial Internet, up by EUR 2 million
- Q3 ended with good order backlog, Q4 profitability expected to be seasonally strong



*) Excluding capital gains, impairments and restructuring costs

Product Development Services

Customer sales Q3

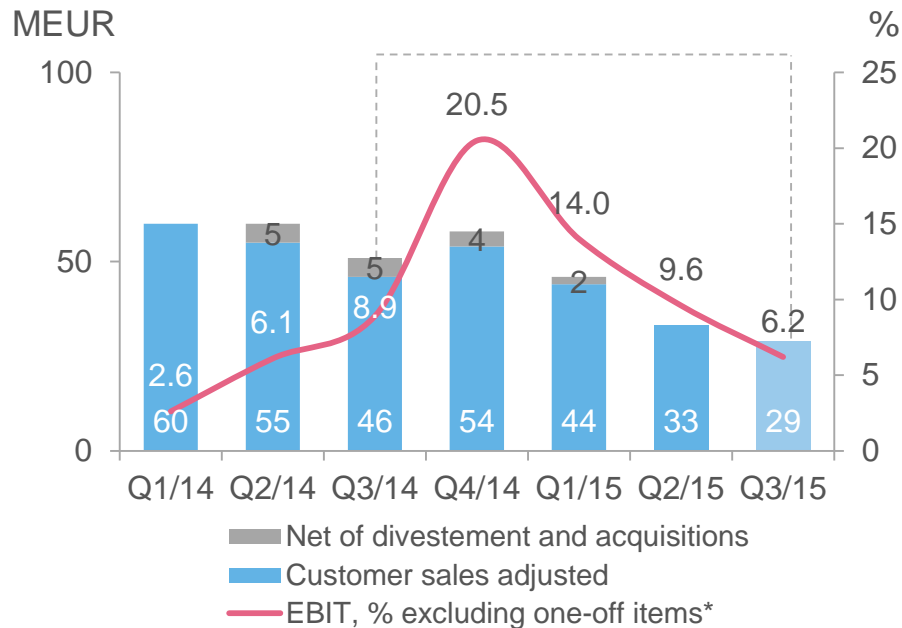
- EUR 29 (51) million, down by 43%
- Organic growth in local currencies -37%

EBIT

- EBIT EUR 0.6 (-37.4) million, 2.1% (-73.0)
- EBIT excluding one-off items*
EUR 1.8 (4.6) million, 6.2% (8.9)

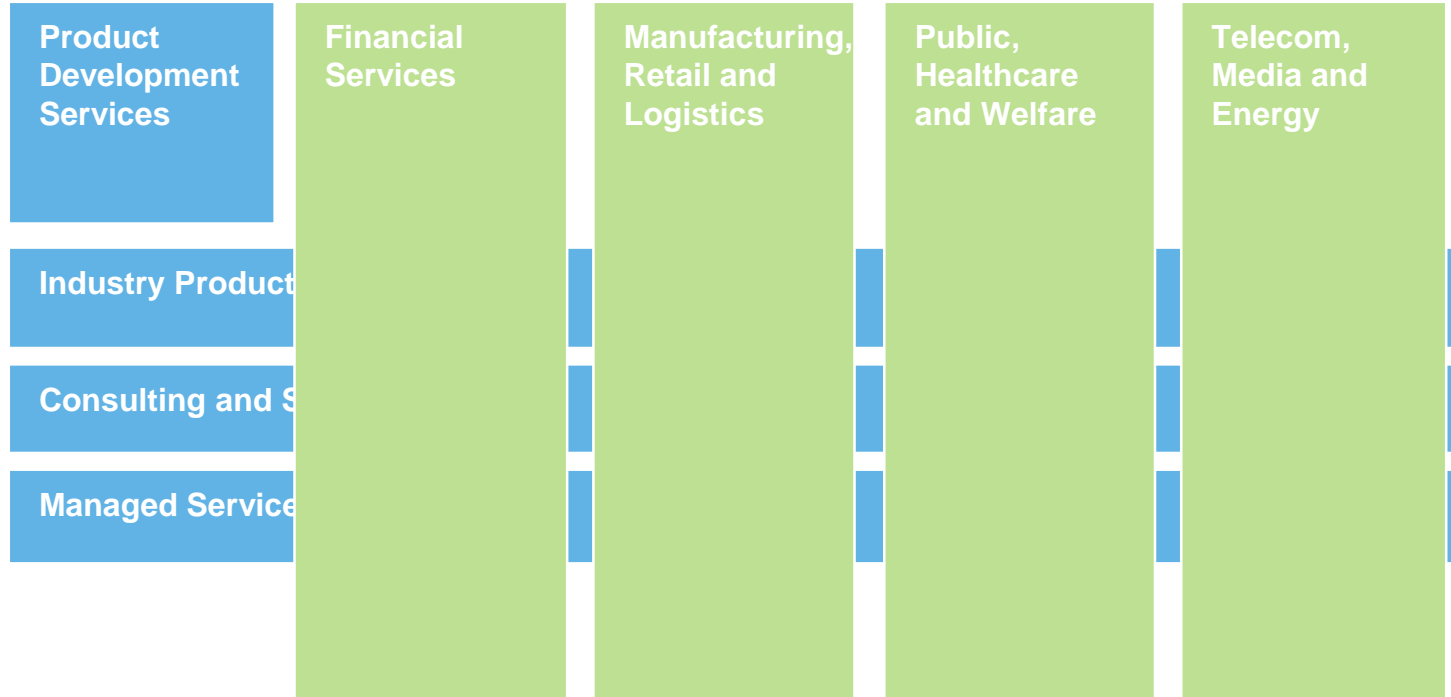
Q3 highlights

- Combined sales for current large customers remained at the 2014 level
- Growth in semiconductor segment
- Accelerated demand in telecom cloud network function virtualization – new wins
- Healthy cost structure for the existing business
- Q3 typically seasonally weaker
- Normalized operating margin expected to level to a range below 10%



*) Excluding capital gains, impairments and restructuring costs

Industry Groups



Financial Services

Customer sales Q3

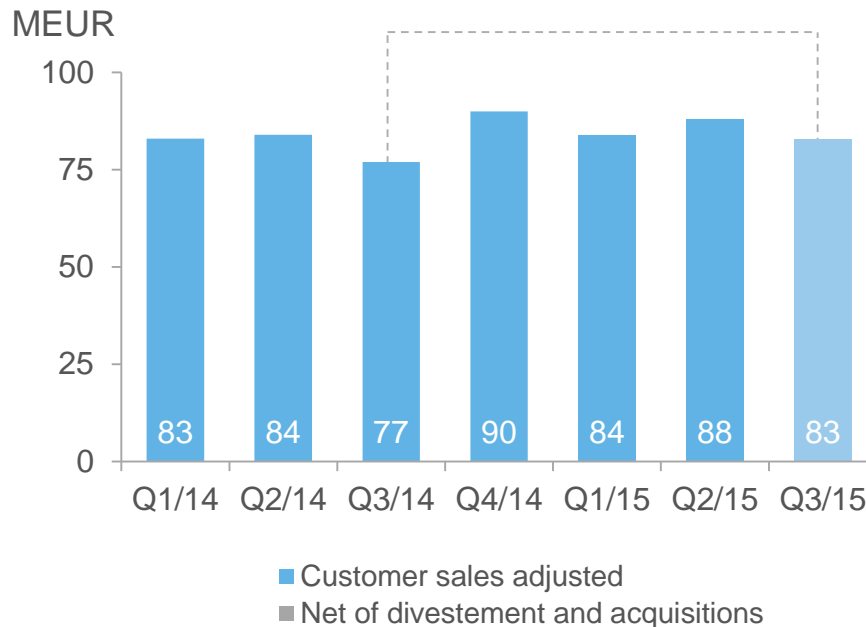
- EUR 83 (77) million, up by 7%
- Organic growth in local currencies 10%, comparable growth 8%*)

Sales split by service line

	Q3/2015	Q3/2014
MS	45%	46%
CSI	20%	19%
IP	35%	35%

Q3 highlights

- CEM, digitalization and regulation drive market growth
- Q3 driven by strong performance in all service lines
- Both existing large customers and a number of Industry Products' customers outside the Nordic countries contributed to growth
 - Industry Products growth mainly from Virtual Account Management product in Payment & Cash area



*) Joint venture business transfer to Tieto

Manufacturing, Retail and Logistics

Customer sales Q3

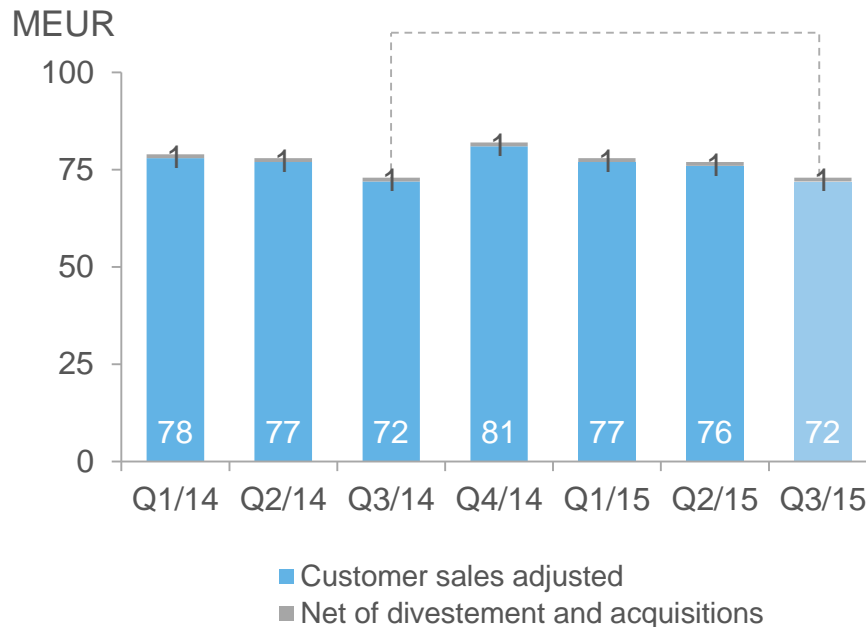
- EUR 73 (73) million, at previous year's level
- Sales in local currencies up by 1%

Sales split by service line

	Q3/2015	Q3/2014
MS	53%	52%
CSI	37%	38%
IP	10%	10%

Q3 highlights

- Strong development in manufacturing and forest sectors
- Retail sector gradually shifting to digitalized ecosystems, driving demand for CEM
 - Sales for the retail segment continued experiencing negative development due to expiry of large contracts
- Industrial Internet in an investment phase



Public, Healthcare and Welfare

Customer sales Q3

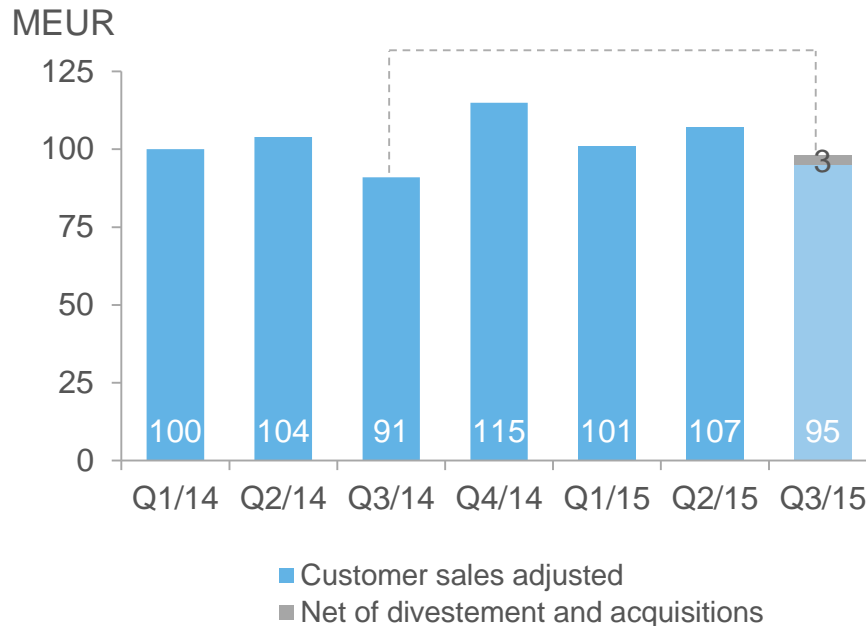
- EUR 98 (91) million, up by 8%
- Organic growth in local currencies 6%

Sales split by service line

	Q3/2015	Q3/2014
MS	38%	39%
CSI	21%	22%
IP	41%	39%

Q3 highlights

- Digitalization of services and processes, with focus on cost reduction and citizen-centric services, drive the market
- Strong organic growth in healthcare and welfare sector as well as public sector in Sweden
- Acquisition of Software Innovation added sales by over EUR 3 million



Telecom, Media and Energy

Customer sales Q3

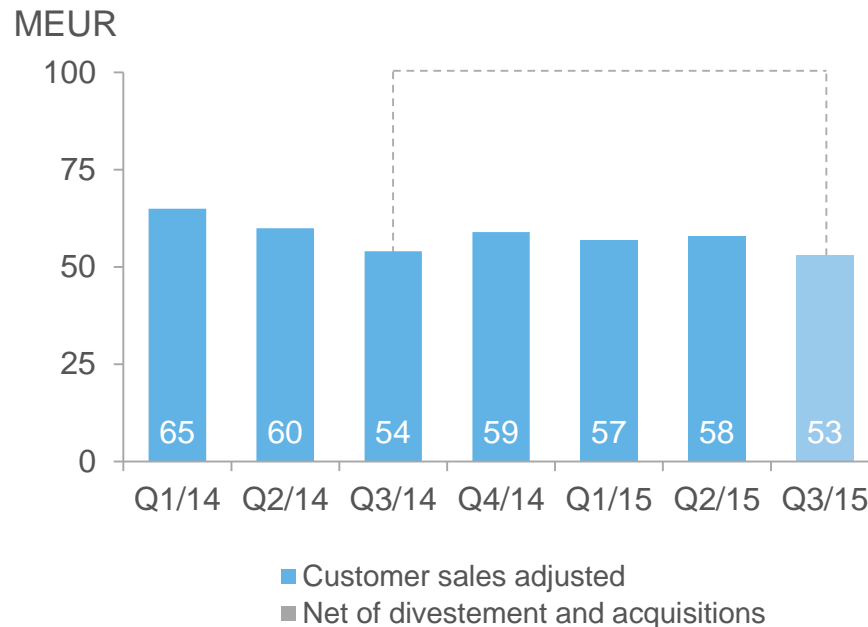
- EUR 53 (54) million, down by 2%
- Organic growth in local currencies 2%

Sales split by service line

	Q3/2015	Q3/2014
MS	17%	21%
CSI	46%	41%
IP	37%	38%

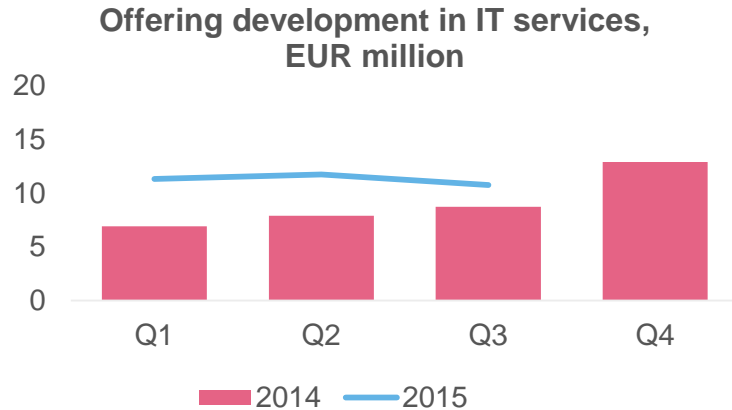
Q3 highlights

- Telecom operators moving from customized solutions to sourcing of standardized packaged solutions
- Sales in local currencies turned to growth, incl. extension and modernization of a significant telecom customer
- Positive development in telecom and energy utilities
- Challenging market conditions in media and oil & gas



Investments in offering development and new hires to accelerate growth

New growth areas to be evaluated



Recruitments in 2015

- Industry consultants
- Digital architects
- UX designers
- Technical specialists
- Software developers















Net recruitments in 1–9/2015

IT services new roles around 400 positions, mainly in H1

Offshore ratio in IT services up to 44.4% (43.0%) in Q3

- Full-year investments (OPEX) in high-growth businesses expected to exceed the 2014 level
 - In 1–9/2015, development costs up by EUR 10 million with focus on growth businesses: Lifecare, CEM, Industrial Internet, Cloud and industry-specific software
 - In Q4, expected to remain at the 2014 level
- Personnel costs related to new recruitments up – 400 new competences recruited in 2015

Performance drivers 2015

Performance drivers in IT services	H1 Impact on profitability ¹⁾	Q3 Impact on profitability ¹⁾	Q4 Impact on profitability ¹⁾
Sales growth			
Increase in offering development			
Costs for new hires in growth businesses			
MS automation programme investments			
Cost savings in MS and CSI			
Currency fluctuations			n/a

¹⁾ Illustrative, in comparison with the previous year

Guidance for 2015 unchanged

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).



Q3 2015 in brief

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- Solid profitability in IT services while investing in new services and competences
- Product Development Services business successfully stabilized

Today every business is a digital business

Faster innovation opens up new opportunities...



in less time



with fewer resources



and with greater flexibility



Changing perspectives™



Appendix

Top 10 customers Q3 2015

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

