

Tieto Q3/2014

Strong underlying operating profit
and IT services order intake

23 October 2014

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Q3 2014 in brief

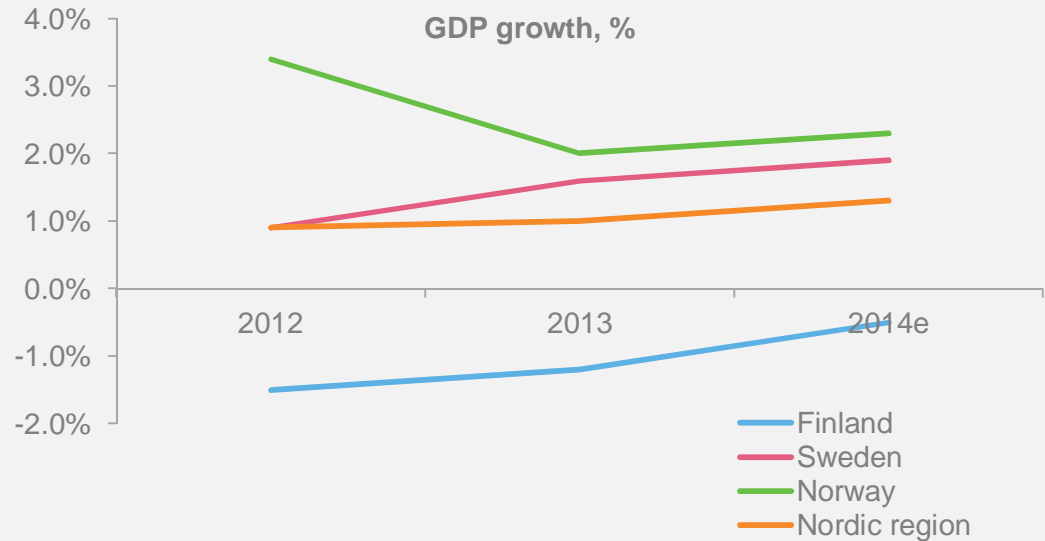
Strong underlying operating profit and IT services order intake

- Underlying operating margin close to 12% mainly due to continued efficiency improvement
- Strong order intake driven by the manufacturing and retail industries as well as continued strong performance in Managed Services
- In Product Development Services, capacity adjustments initiated due to the insourcing decision taken by one key customer – one-off goodwill impairment charges impacting operating profit

Nordic IT services market expected to grow

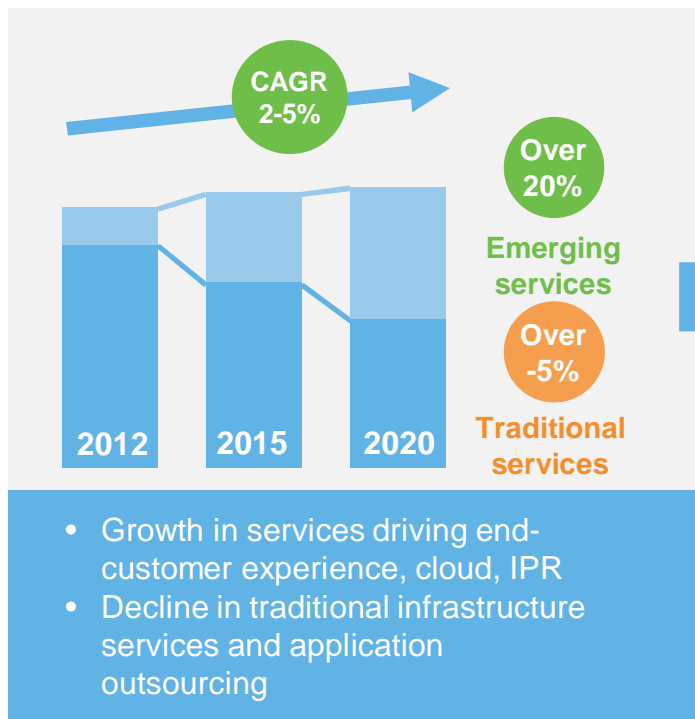
GDP estimates slightly reduced

- Tieto expects the Nordic IT services market to grow by around 2% in 2014
 - Growth may slow down towards the year-end, especially in Finland
 - GDP forecasts slightly down
 - Growth in the second half may be slower than in the first half
- Digitalization drives customers' agenda
 - Double-digit growth for customer experience management, mobility and cloud services while the traditional IT services market is likely to decline
 - Demand for infrastructure and applications modernization remains high



Source: Nordea, Economic Outlook September 2014

New services contributing to growth



Source: Multiple sources, Tieto estimates

Tieto's growth drivers

- Customer experience management (CEM) posting double-digit growth
- Industrial internet operations in start-up phase
- Healthcare posting 9% growth in local currencies
- Cloud services growing by 38% q-on-q, or 131% in the nine-month period

Development in traditional services follow the market trend

- Infrastructure management
- Application management

Financial development



Q3 2014 key figures

Net sales

- EUR 346 (361) million, -4.1%, organic growth in local currency -2.6%
 - Divestments EUR 1 million
 - Currency EUR -9 million
- In IT services, organic growth in local currencies 1.0%

EBIT

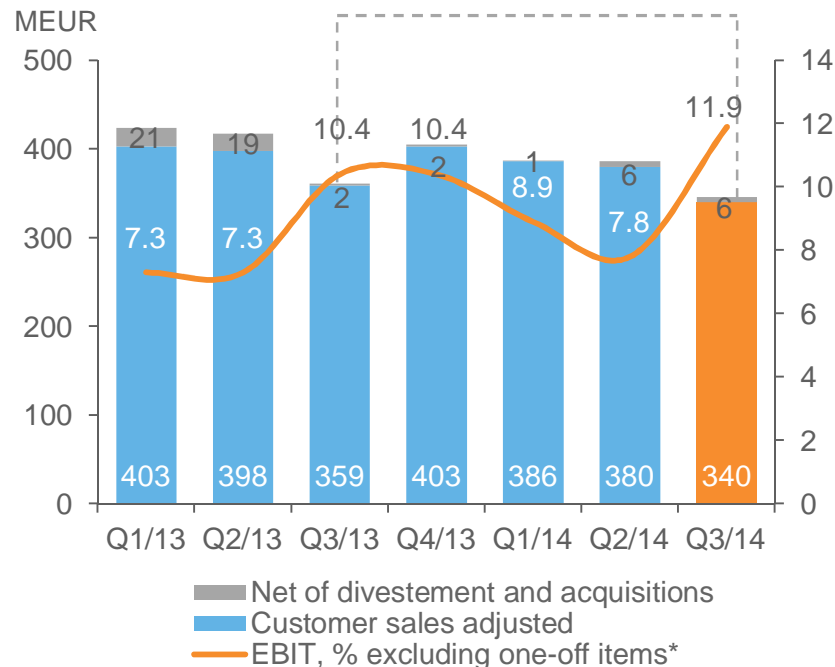
- EBIT EUR -3.9 (24.3) million, -1.1% (6.7%)
 - EUR 5.7 million restructuring costs
 - EUR 39.6 million goodwill impairment charge
- EBIT excluding one-off items* EUR 41.3 (37.5) million, 11.9% (10.4%)

Order backlog

- Order backlog EUR 1 558 (1 421) million
- Total Contract Value EUR 395 (299) million
- Book-to-bill 1.1 (0.8)
 - In IT services 1.2 (0.7)

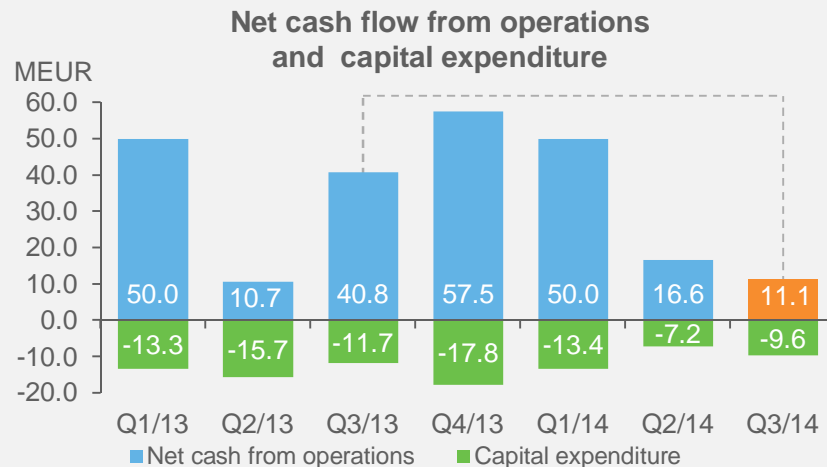
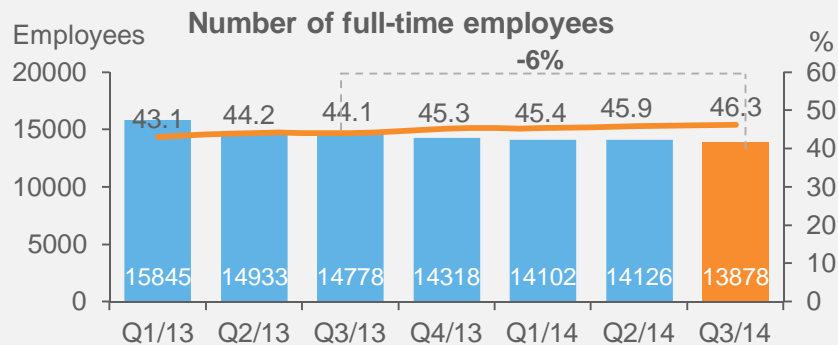
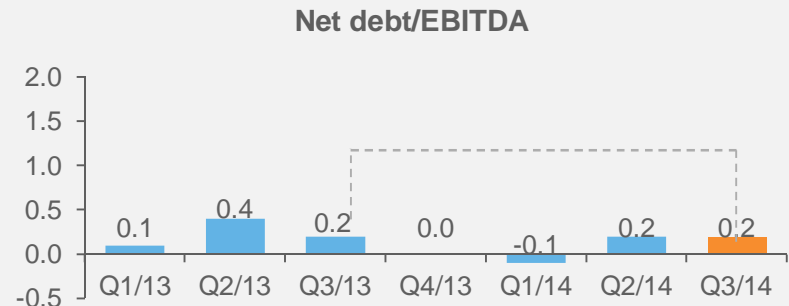
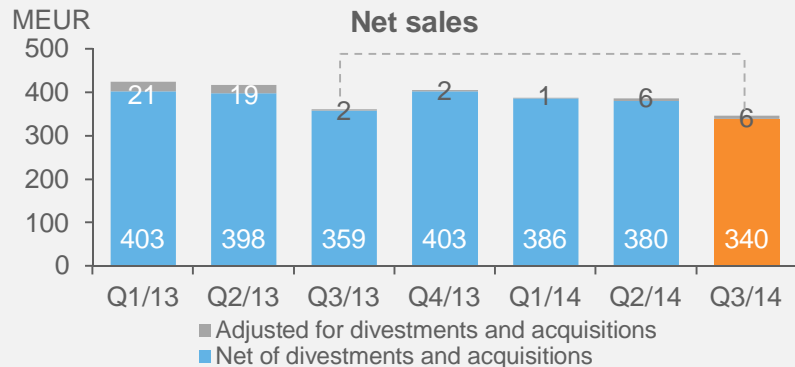
Earnings per share

- EUR -0.17 (0.25)
- EUR 0.43 (0.38), excluding one-off items*

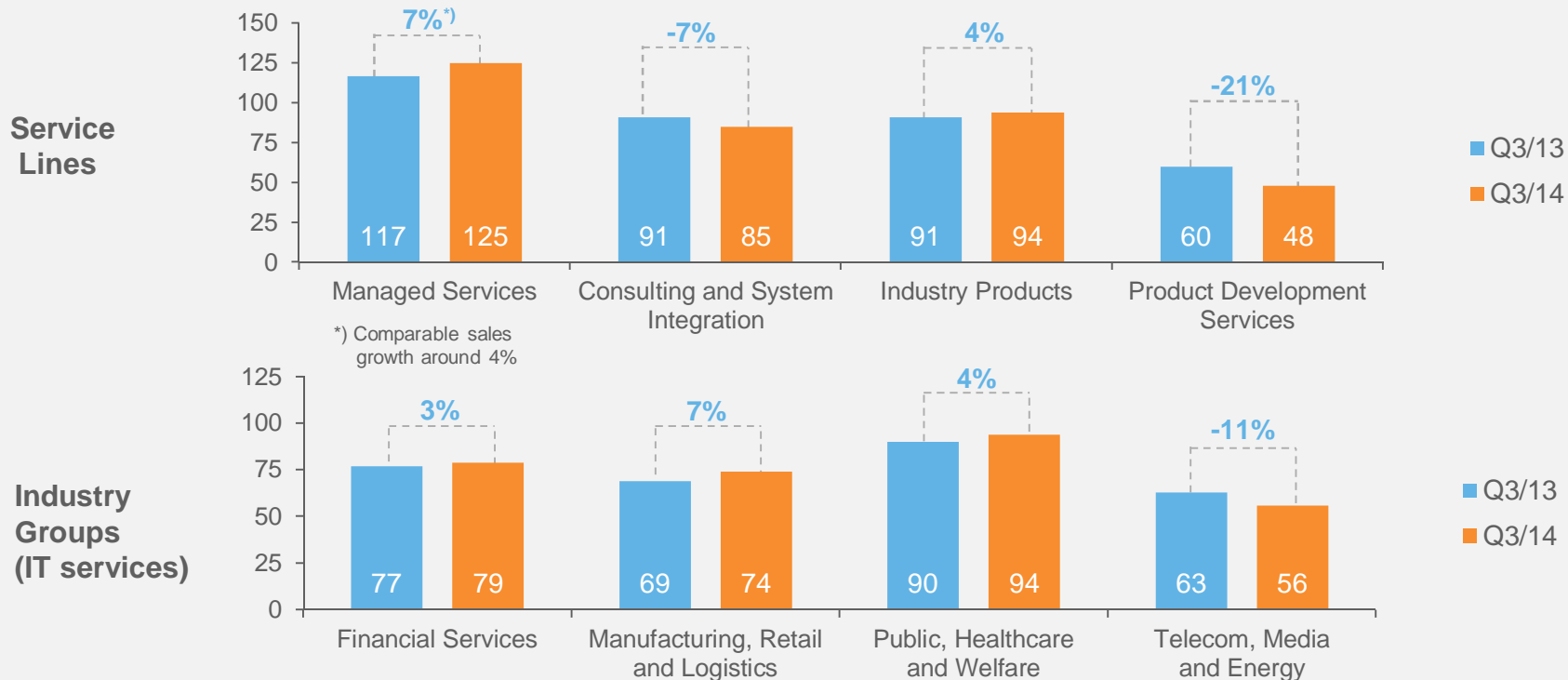


*) Excluding capital gains, impairments and restructuring costs

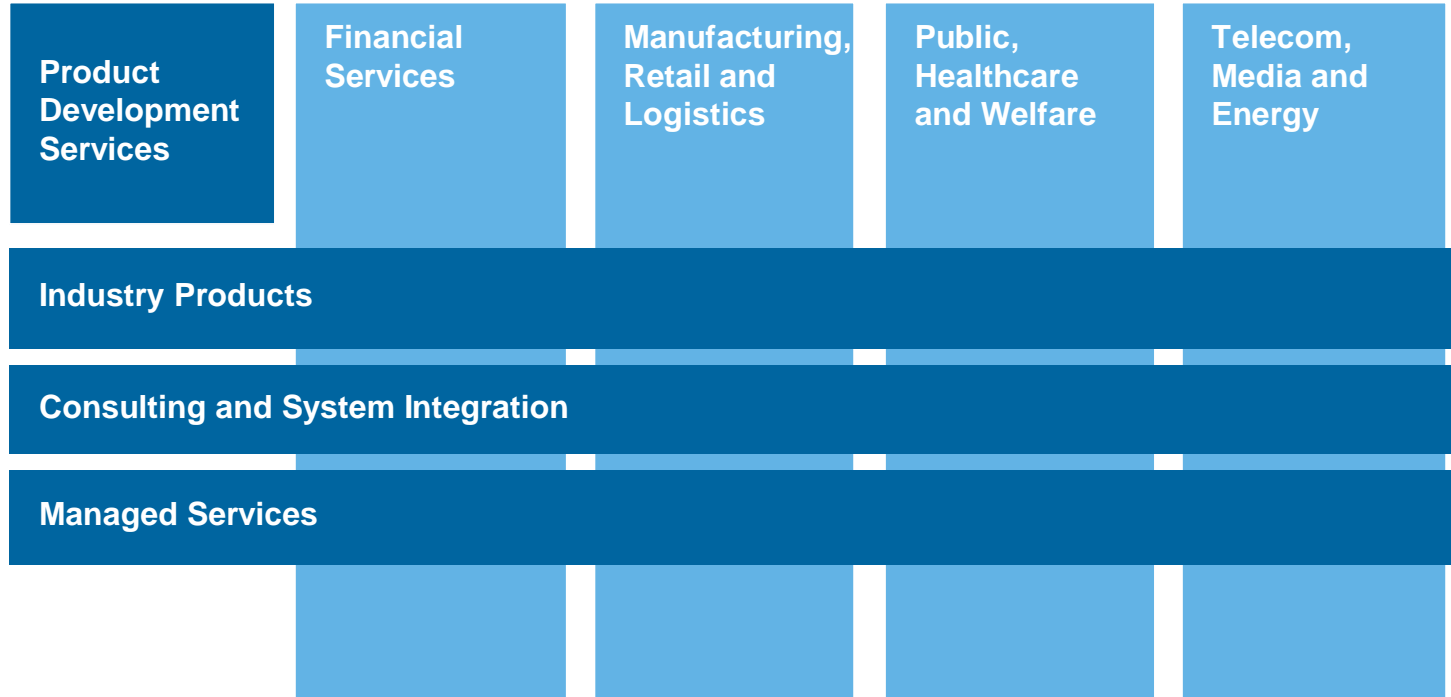
Quarterly development



Organic growth in local currencies by Service Line and Industry Group



Service Lines



Managed Services

Customer sales

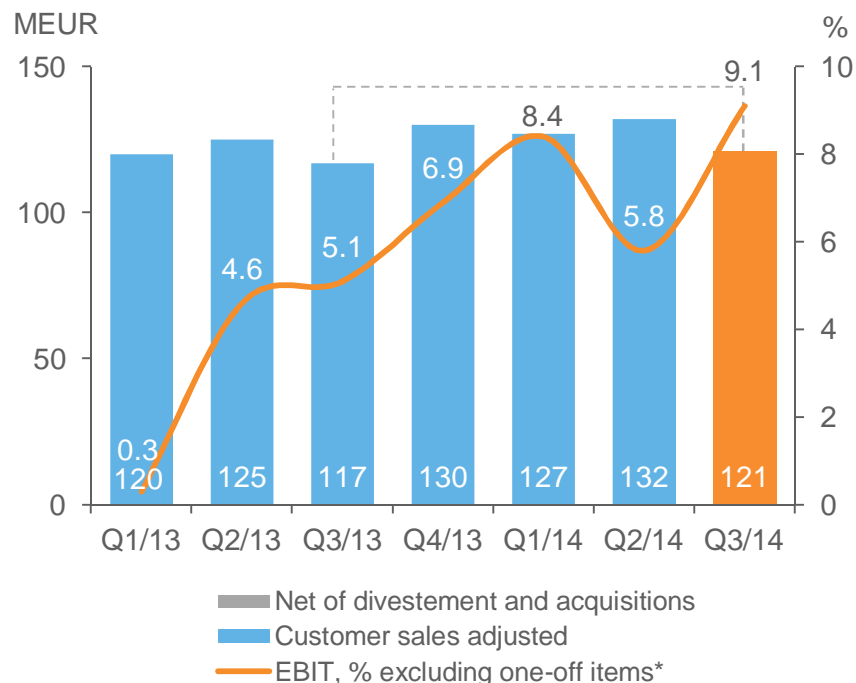
- EUR 121 (117) million, up by 4%
- Organic growth in local currencies 7%
- Comparable sales growth around 4% *)

EBIT

- EBIT EUR 11.0 (3.7) million, 9.0% (3.2)
- EBIT excluding one-off items*
EUR 11.1 (6.0) million, 9.1% (5.1)

Q3 highlights

- Competitive position continued to strengthen
- The market for transforming ICT infrastructure to cloud-based environments remained strong
- Cloud services sales grew by 38% q-on-q
 - In the nine months, up by 131%
- Growth partly attributable to an internal transfer of some business in Tieto's joint venture in the finance sector *)
- Good volume development coupled with higher efficiency resulted in profitability improvement
- Seasonally high operating margin – Q4 margin is typically lower



*) Excluding capital gains, impairments and restructuring costs

Consulting and System Integration

Customer sales

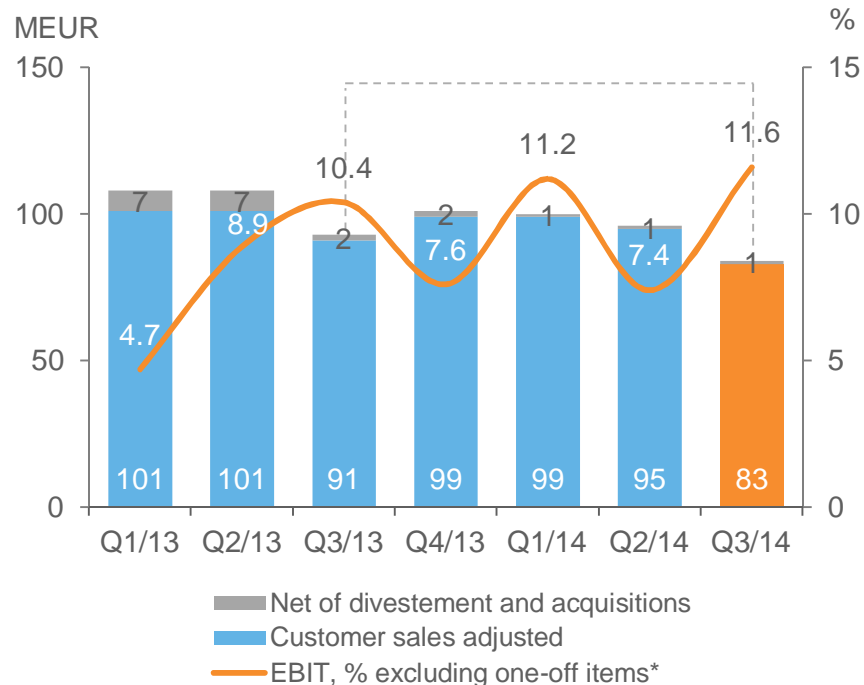
- EUR 84 (92) million, down by 9%
- Organic growth in local currencies -7%

EBIT

- EBIT EUR 7.2 (4.0) million, 8.6% (4.3)
- EBIT excluding one-off items*
EUR 9.7 (9.6) million, 11.6% (10.4)

Q3 highlights

- Continued good profitability development
- Revenue mix impacted by two-fold development
 - Healthy growth in customer experience management and transformation consulting
 - Price erosion in traditional application management
- Efficiency measures improve utilization rate and operating profit
- Q3 ended with healthy book-to-bill
- New AM contracts based on industrialized processes
- Q4 affected by somewhat higher offering development costs
 - Investments in industrialization and offering development



*) Excluding capital gains, impairments and restructuring costs

Industry Products

Customer sales

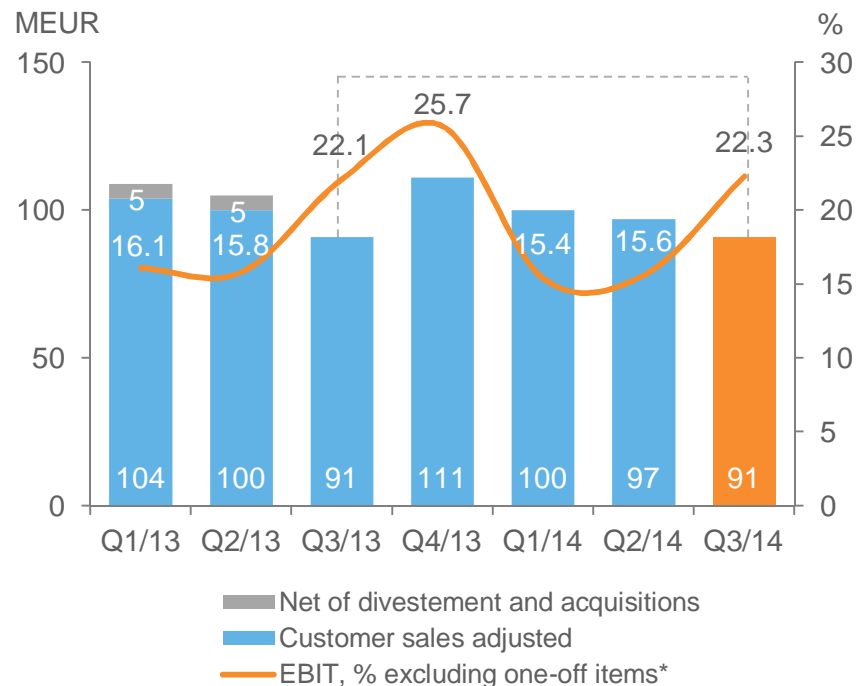
- EUR 91 (91) million, at the previous year's level
- Organic growth in local currencies 4%

EBIT

- EBIT EUR 20.3 (19.9) million, 22.4% (21.9)
- EBIT excluding one-off items*
EUR 20.2 (20.1) million, 22.3% (22.1)

Q3 highlights

- Strong market position, strengthening in healthcare and welfare
- Healthy development in license and maintenance sales whereas interest in development and implementation of new solutions lower
- Healthy operating margin at the previous year's level – seasonally high
- Market instability in the Eastern Europe may impact FS license revenues in the near term while the overall exposure of the Group to this area is limited



*) Excluding capital gains, impairments and restructuring costs

Product Development Services

Customer sales

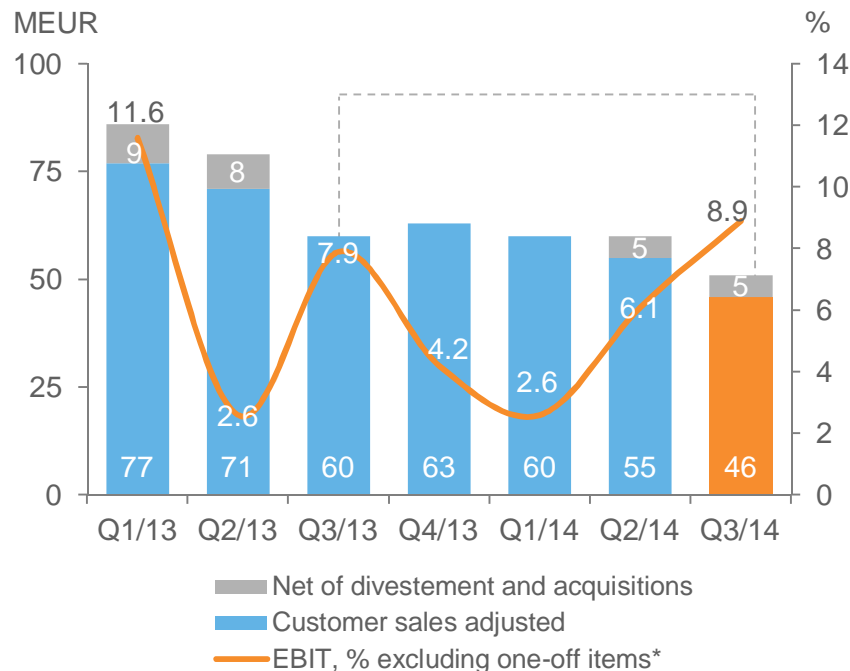
- EUR 51 (60) million, down by 15%
- Organic growth in local currencies -21%

EBIT

- EBIT EUR -37.4 (3.0) million, -73% (5.0)
 - EUR 39.6 million goodwill impairment charge
- EBIT excluding one-off items*) EUR 4.6 (4.8) million, 8.9% (7.9)

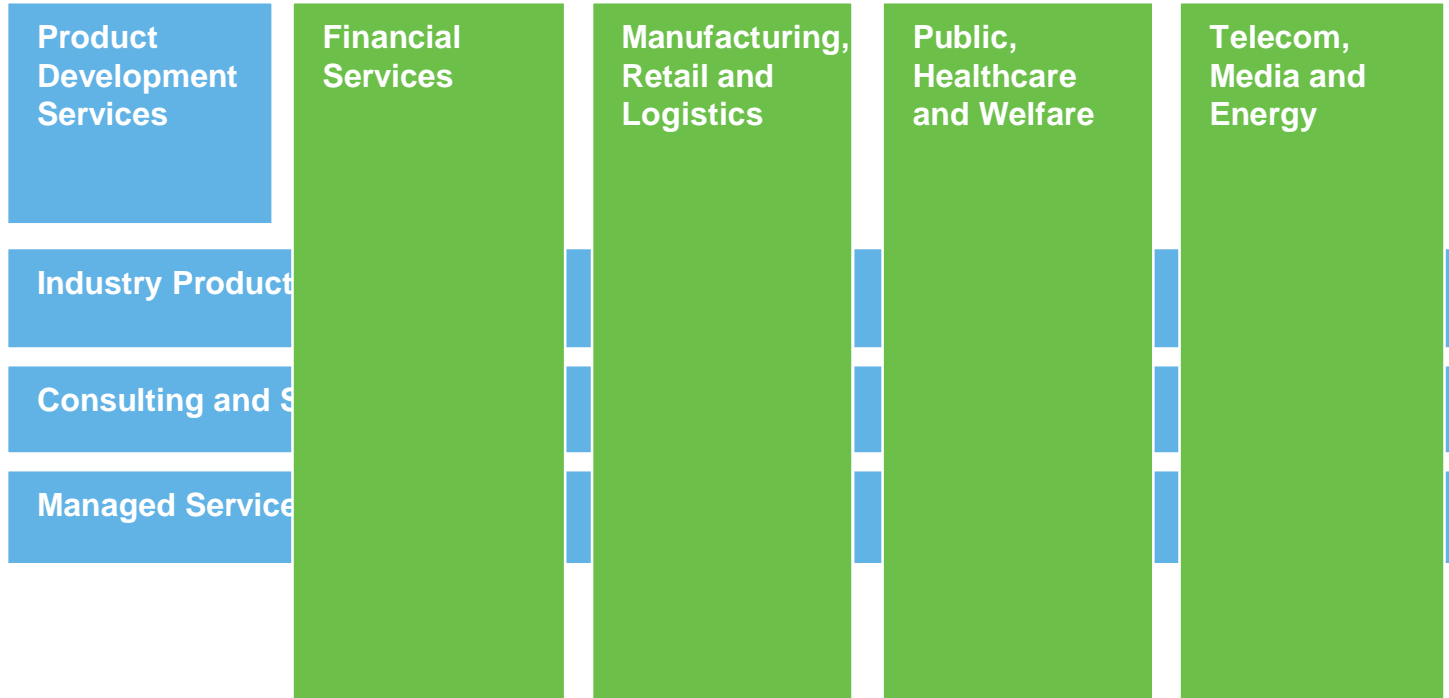
Q3 highlights

- Sales continued to decrease due to some key customers' continued insourcing
- New customer wins in the semiconductor area and some new openings with existing customers in the mobile devices area still have a limited impact on financials
- Appropriate adjustment of resources continued and profitability of underlying business improved
- In Q4, high restructuring costs while improved underlying profitability
 - Operational efficiency
 - Some temporary commercial terms



*) Excluding capital gains, impairments and restructuring costs

Industry Groups



Financial Services

Customer sales

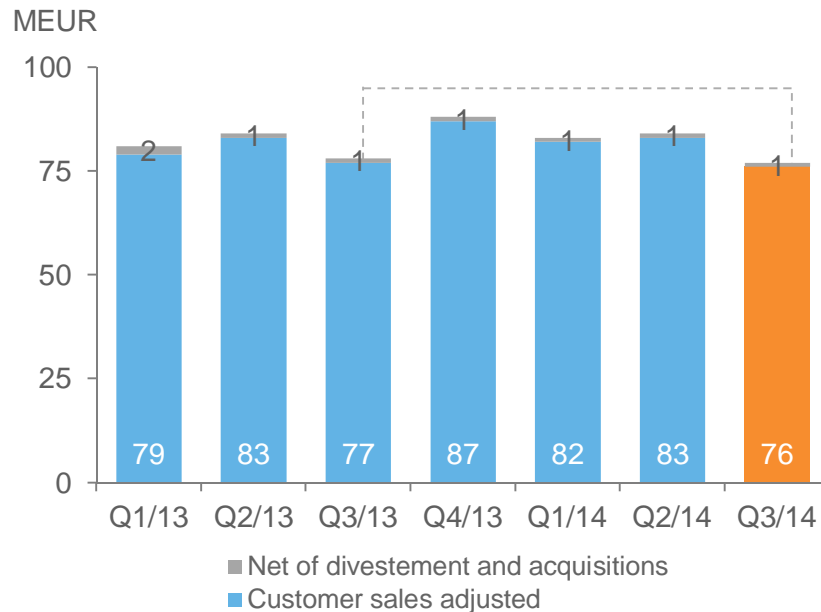
- EUR 77 (77) million, at the previous year's level
- Organic growth in local currencies 3%

Sales split by service line

	Q3/14	Q3/13
MS	46%	44%
CSI	19%	19%
IP	35%	37%

Q3 highlights

- All service lines growing
- Healthy activity level remains in both Consulting and System Integration and Managed Services
- Sales growing both in Finland and Sweden
- New major agreements with Varma and EnterCard



*) Excluding capital gains, impairments and restructuring costs

Manufacturing, Retail and Logistics

Customer sales

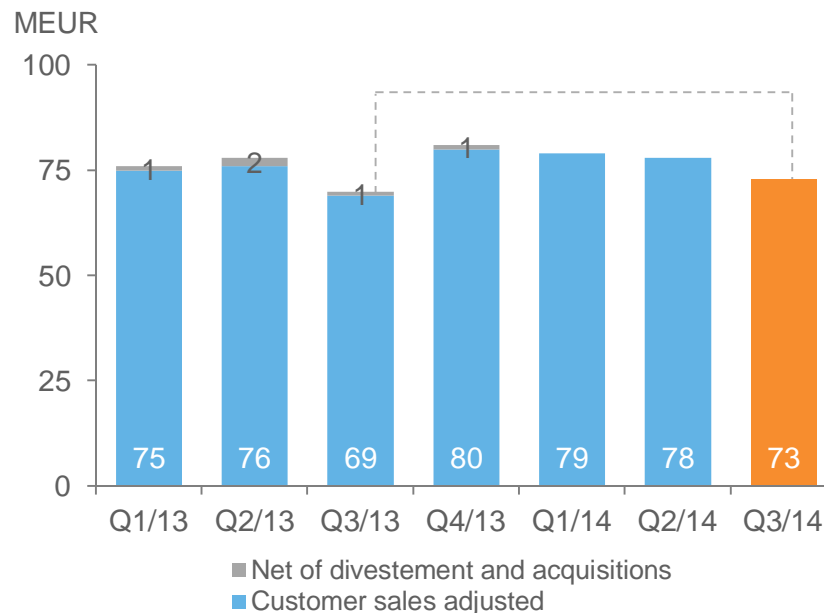
- EUR 73 (70) million, up by 5%
- Organic growth in local currencies 7%

Sales split by service line

	Q3/14	Q3/13
MS	53%	50%
CSI	37%	40%
IP	10%	10%

Q3 highlights

- Good growth attributable mainly to outsourcing activities
- Several new agreements concluded in the nine-month period reflected in strong book-to-bill in all industries
- Strong overall performance in Manufacturing and Retail segments
- Growth posted in all Nordic countries
- New major agreements with UPM and S Group



*) Excluding capital gains, impairments and restructuring costs

Public, Healthcare and Welfare

Customer sales

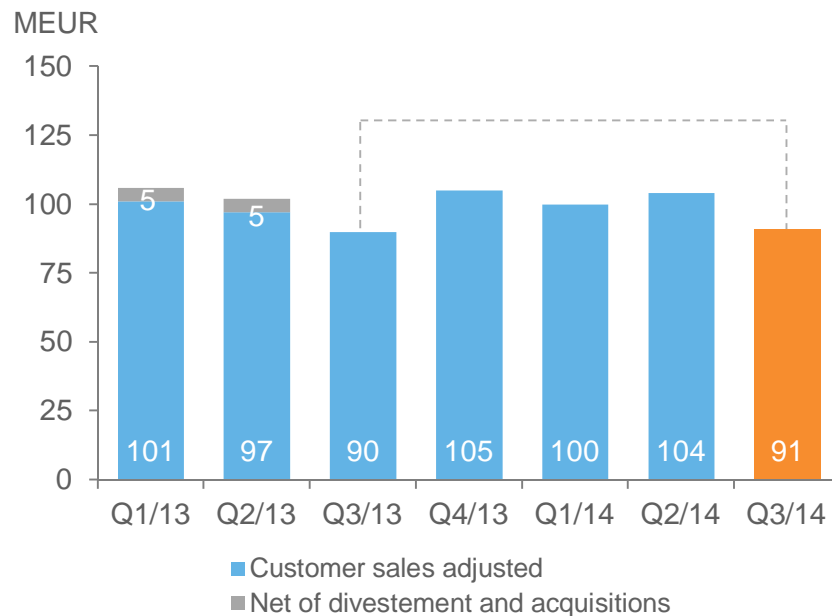
- EUR 91 (90) million, up by 1%
- Organic growth in local currencies 4%

Sales split by service line

	Q3/14	Q3/13
MS	39%	39%
CSI	22%	24%
IP	39%	37%

Q3 highlights

- Strong growth in healthcare and welfare segment and the Swedish public sector, 9% and 13% respectively
- In Finland, digitalization and deliveries related to national interoperability are proceeding
 - Around 60% of Tieto's healthcare customers in the public sector have been connected to national archive
 - In 2015, deliveries will continue in the private sector
- Several new agreements based on Hansel frame agreement in Finland



*) Excluding capital gains, impairments and restructuring costs

Telecom, Media and Energy

Customer sales

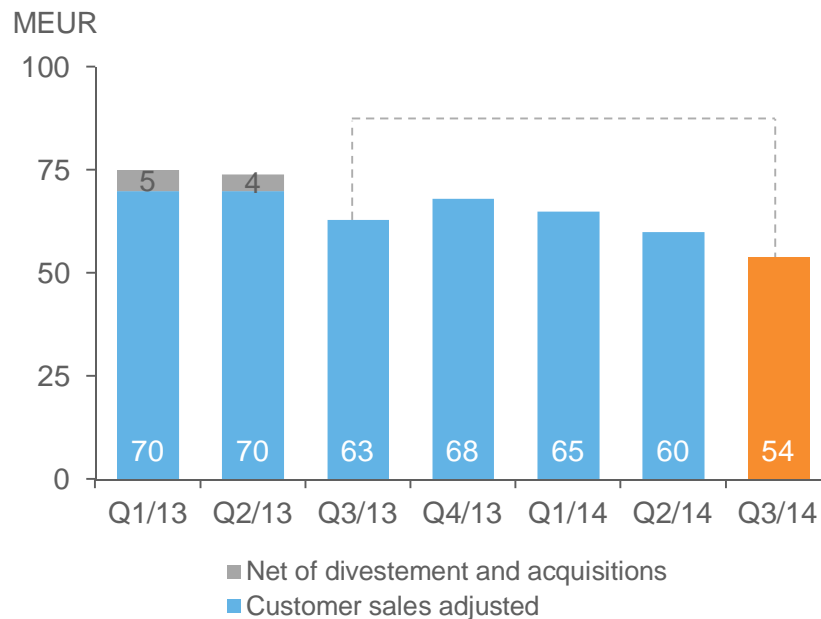
- EUR 54 (63) million, down by 14%
- Organic growth in local currencies -11%

Sales split by service line

	Q3/14	Q3/13
MS	21%	21%
CSI	41%	43%
IP	38%	36%

Q3 highlights

- Interest in starting new projects is low in all segments
- Order intake slightly increased in Q3
- In energy utilities, regulatory changes related to the harmonization in the Nordics delaying IT investments
 - Advanced metering infrastructure in Norway is progressing well with additional customer wins
- Oil&gas segment growth slightly negative due to customer reduced investment levels
- New major agreement with Vattenfall



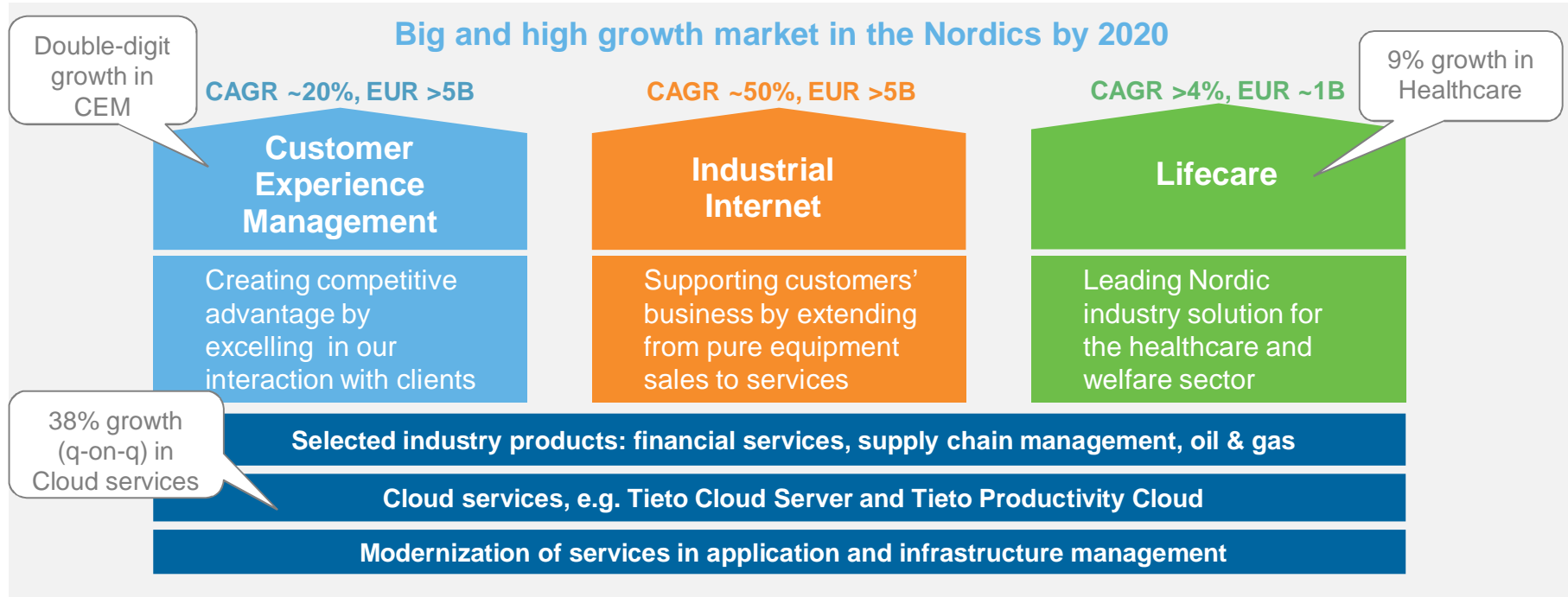
*) Excluding capital gains, impairments and restructuring costs

Roadmap for consistent strategy execution



Investing in offerings and innovation

Estimated offering development costs in 2014 around €45-50m



Continued focus on efficiency

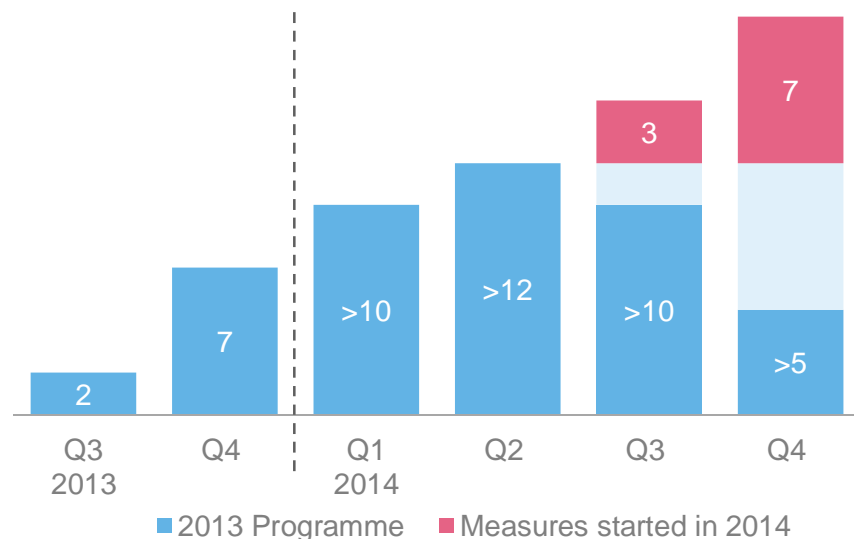
2013 programme concluded: annualized savings of over EUR 50 million

- 1 200 employees
- Restructuring costs EUR 49 million in 2013

New efficiency measures announced in 2014

- In IT services
 - 160 employees in CSI (announced in May), mainly related to competence renewal, AM industrialization and offshoring
 - Savings in 2014 EUR 5 million
- In PDS
 - 1 200 employees announced (250 in May and June, 950 in October)
 - Savings in 2014 EUR 5 million
- Restructuring costs in 2014 estimated to be in the range of EUR 45–50 million in total, of which around 2/3 in PDS
- Efficiency drivers going forward: automation, offshoring and utilization

Estimated profit improvement impact (y-on-y), EUR million



Performance drivers in 2014

- In IT services, the company aims to organically grow in line with the market
- In Product Development Services, sales anticipated to decline in the full year – 2015 will be affected by the insourcing decision made by one key customer
 - Currently, the share of the key customer in Tieto's Group sales around 5%
 - In 2014 and 2015, no major effect on total net cash flow due to the release of net working capital
 - Restructuring costs related to these measures may rise up to EUR 20 million - booked mainly in Q4
- Restructuring costs in 2014 estimated to be in the range of EUR 45–50 million in total for the company

Guidance for 2014 unchanged

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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Changing perspectives™



Appendix



Top 10 customers 2014

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

