


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

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

Q2 2015 in brief

Healthy growth in IT services – competitiveness strengthens further

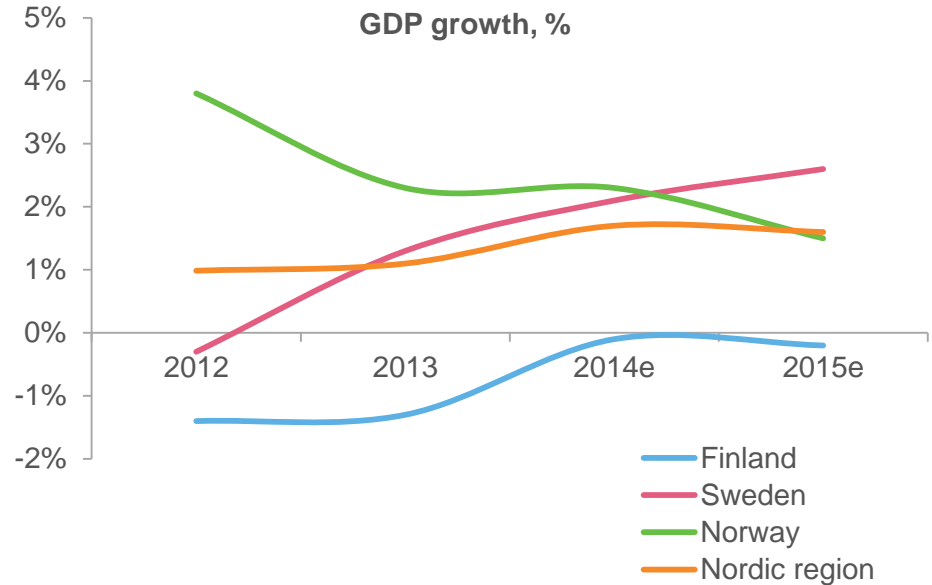
- IT services growth close to 3% – profit as expected
- Managed Services automation programme on track
- Acquisition of Software Innovation strengthens Tieto's competitiveness
- Solid performance in Product Development Services

Market conditions unchanged – expected Nordic IT services market growth 2%

IT market affected by economic outlook

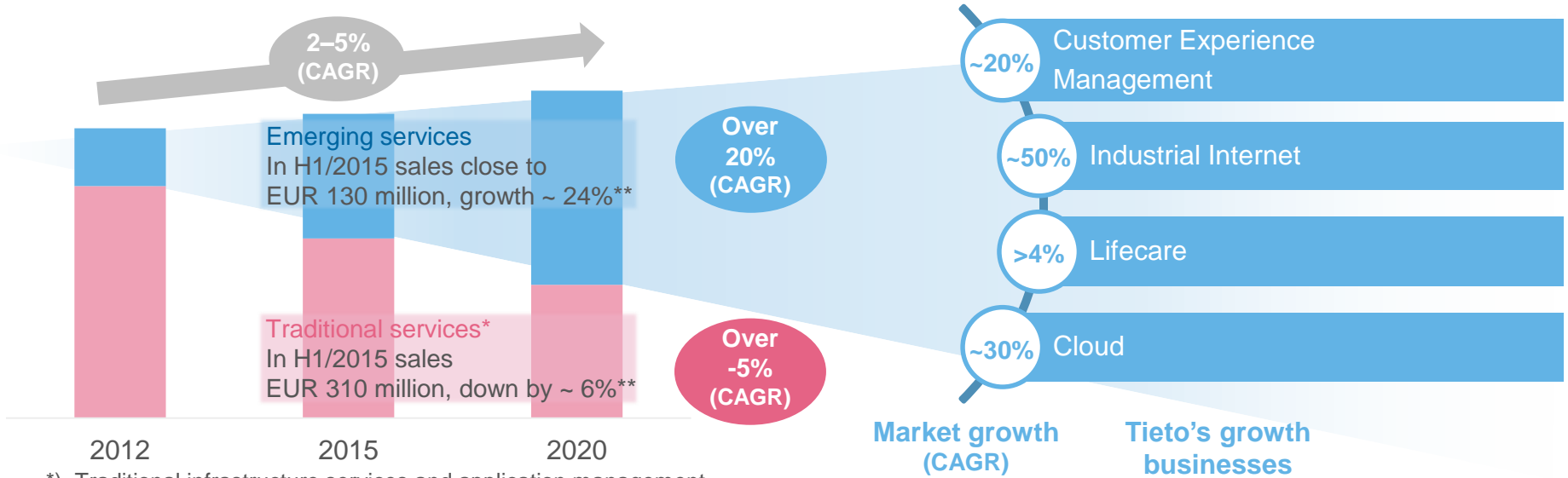
- Tieto expects the Nordic IT services market to grow by around 2% in 2015
- **Positive outlook in the Swedish economy**
- **Finnish economy remains sluggish**
- IT services market strongest in Sweden
- Long-term growth (CAGR 2013–2018) in cloud services around 30% – market size still small

| 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, updates as of June 2015

Emerging services continue to drive growth



*) Traditional infrastructure services and application management

***) Growth in local currencies

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

Well positioned to become the preferred digitalization partner

Customer Experience Management



- Investments in offerings and recruitment of new talent
- Tieto and Varma launched the first mobile application in the pension sector
- Tieto and Metsä Group launched the first eCommerce solution for forest owners
- Annual sales 2014: over EUR 20 million
- H1 growth in line with the market

Industrial Internet



- Full-service IT partner for HSB Living Lab, research project to design intelligent solutions for future living
- TeliaSonera together with Tieto launched the M2M in a Box service in Sweden
- In 2015, investments anticipated to amount to EUR 3 million, cash flow negative

Lifecare



- Good growth continued in Q2
- Strong development in Sweden and Norway
- New application launches continue in 2015
- Annual sales 2014: EUR 160 million
- H1 growth higher than the market

Cloud services



- Cloud offerings currently represent around 15% of Managed Services' sales
- Several transition projects ongoing
- Annual sales 2014: around EUR 50 million
- H1 growth: 108%

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

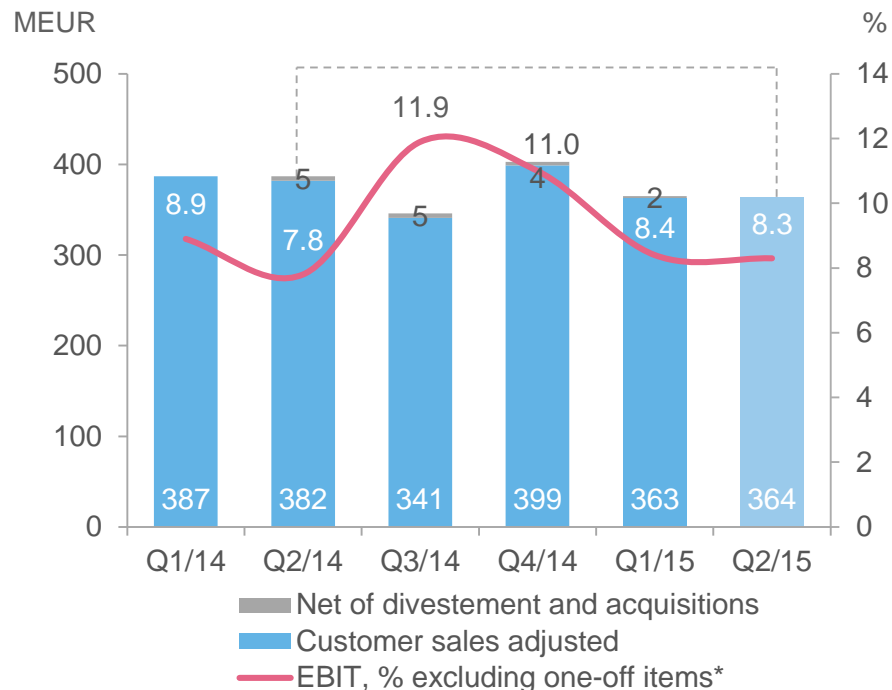
- EBIT EUR 23.1 (21.5) million, 6.3% (5.6%)
 - EUR 7.0 million restructuring costs
 - Currency impact EUR 2 million
- EBIT excluding one-off items* EUR 30.1 (30.0) million, 8.3% (7.8%)

Order backlog

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

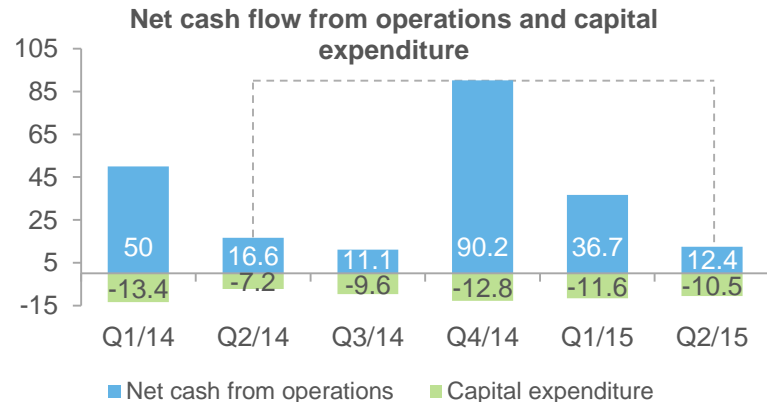
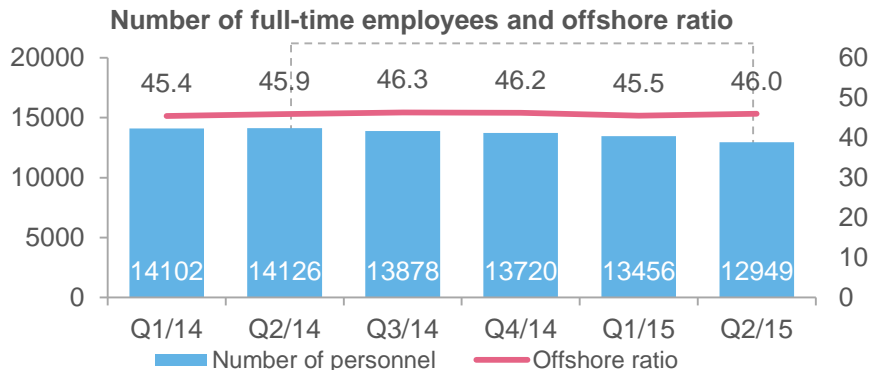
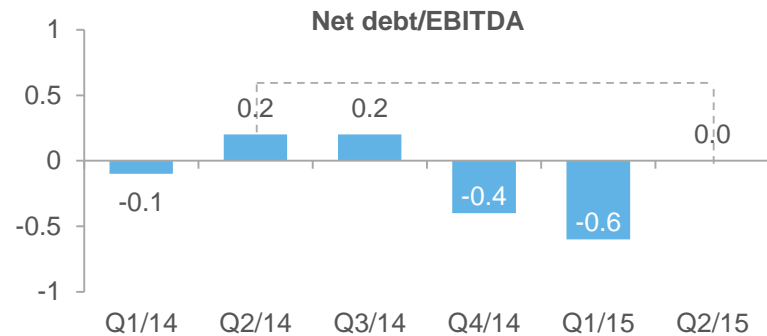
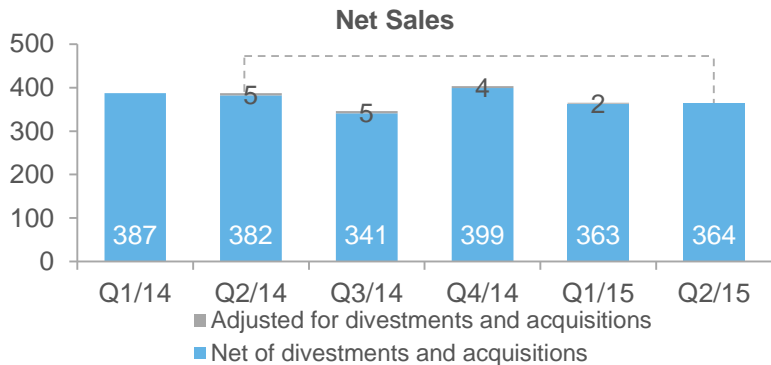
Earnings per share

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



*) Excluding capital gains, impairments and restructuring costs

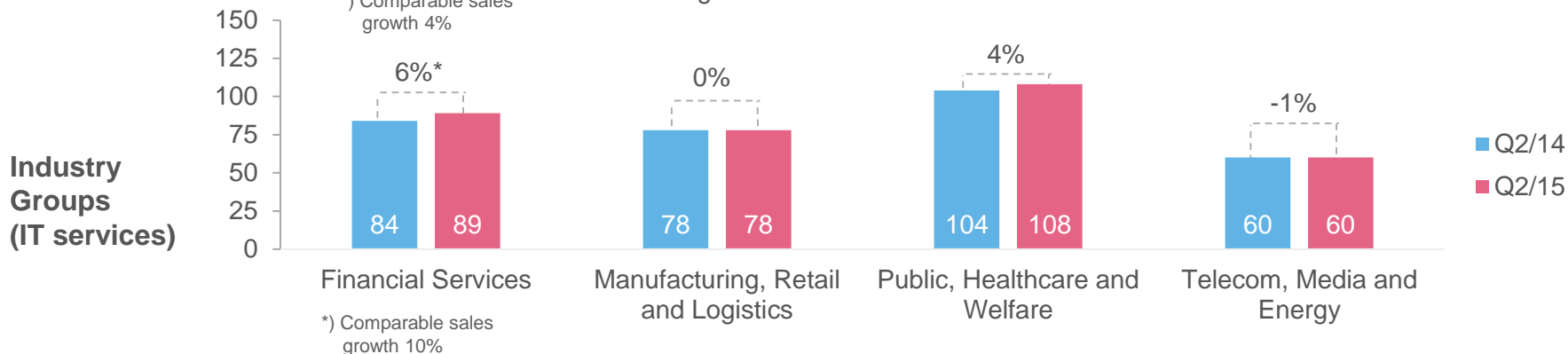
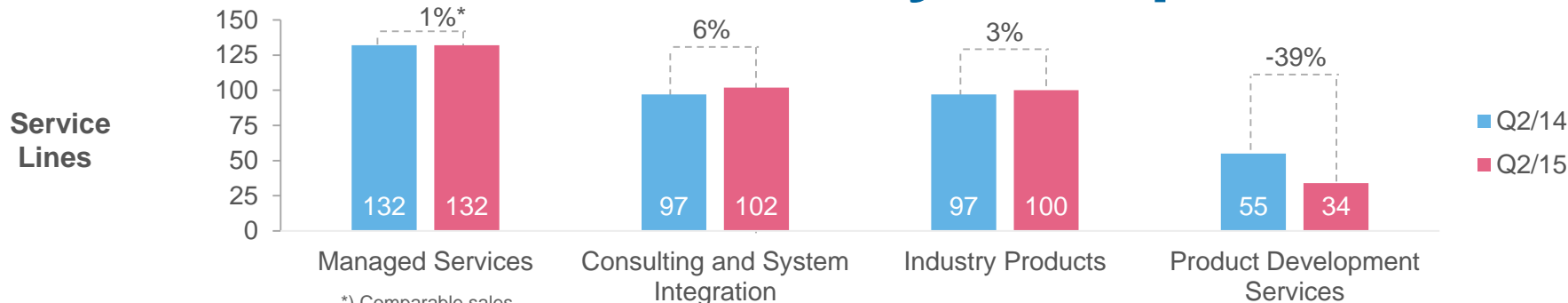
Quarterly development



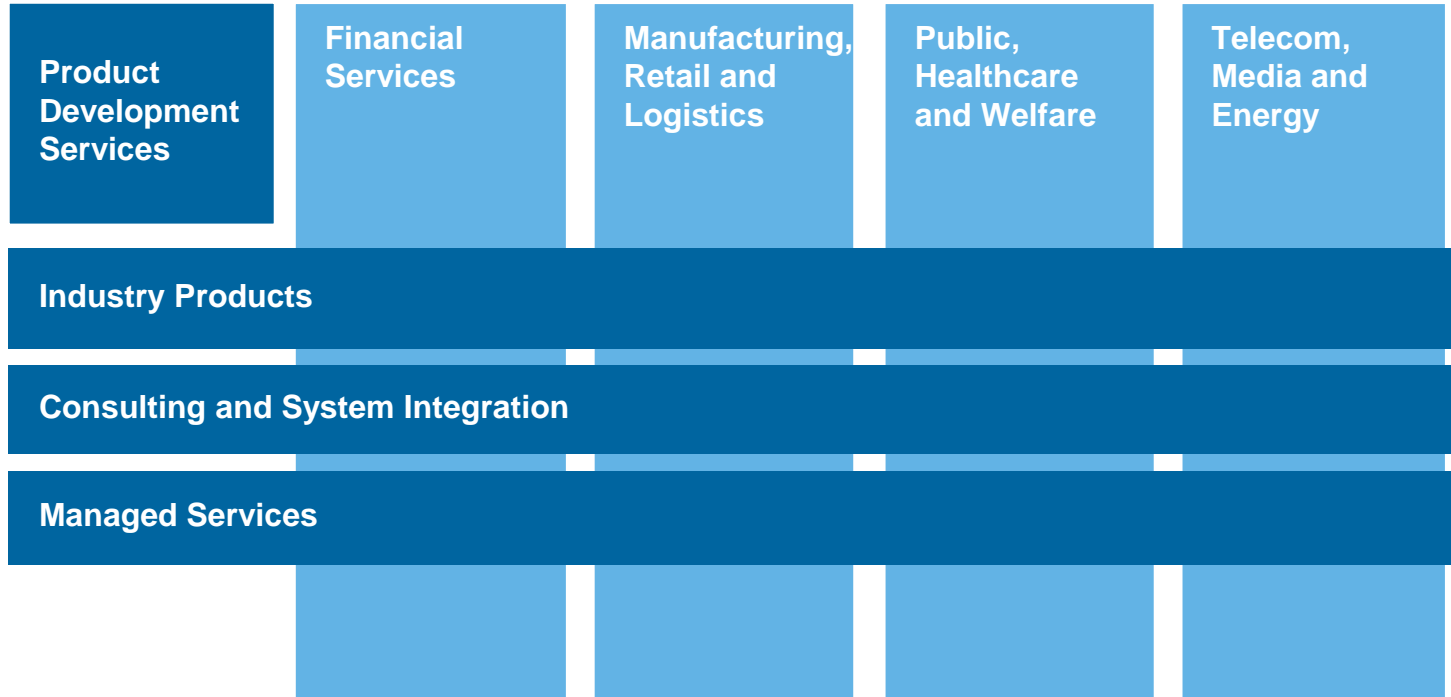
Number of personnel down by a net amount of 1 177

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



Managed Services

Customer sales Q2

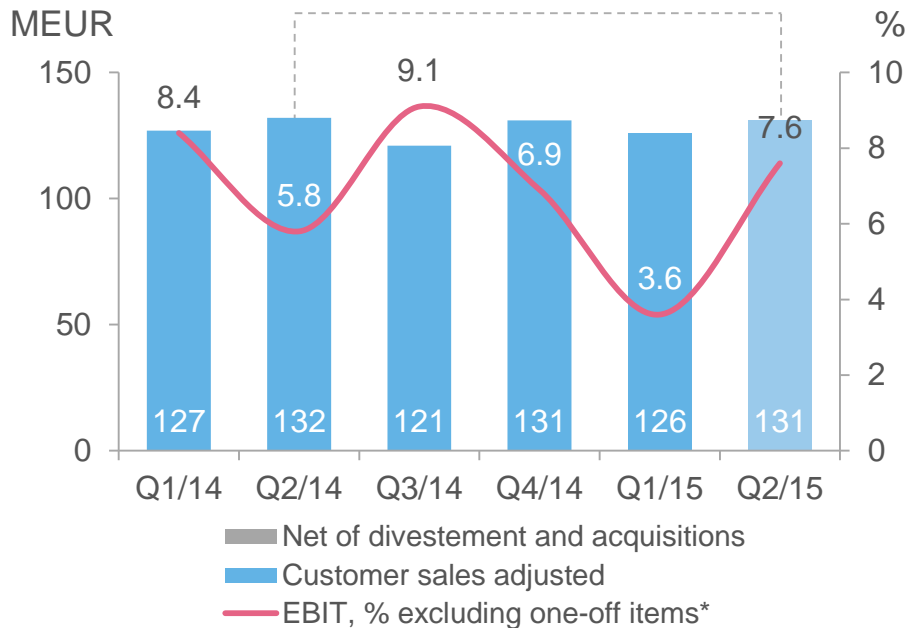
- EUR 131 (132) million, down by 1%
- Organic growth in local currencies 1%, or 4% excl. revenue recognized from equipment sales in 2014

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

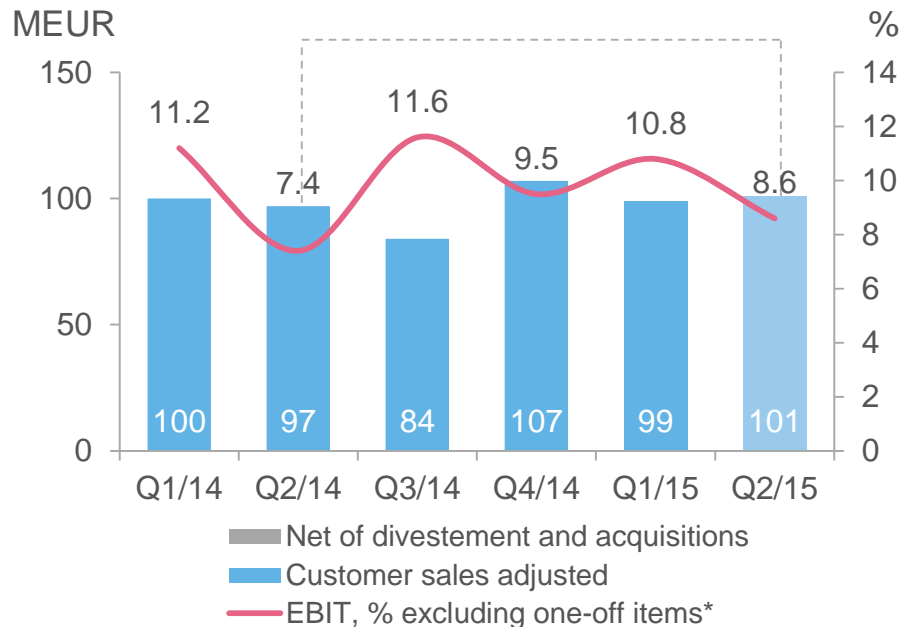
- EUR 101 (97) million, up by 5%
- Organic growth in local currencies 6%

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

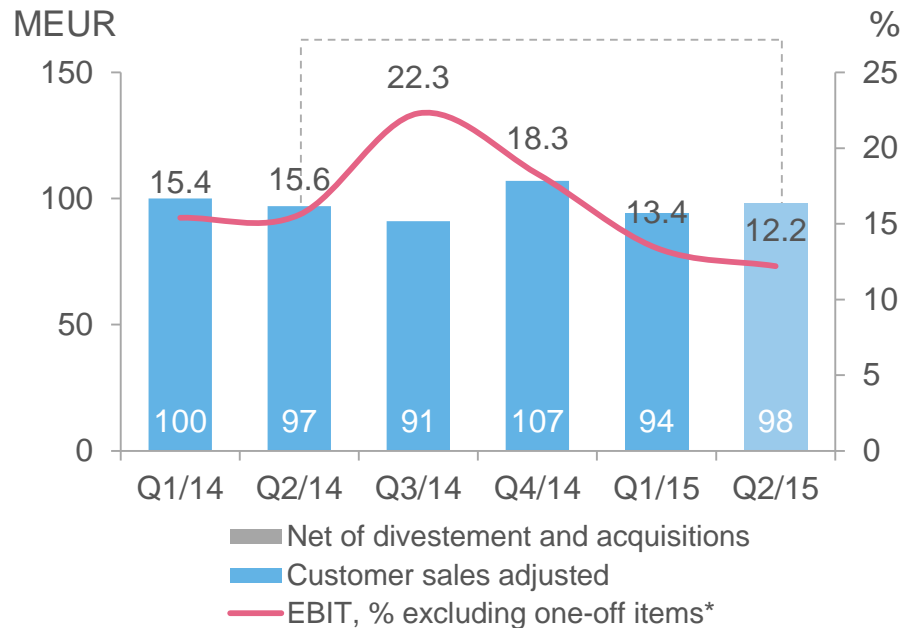
- EUR 98 (97) million, up by 1%
- Organic growth in local currencies 3%

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

Product Development Services

Customer sales Q2

- EUR 33 (60) million, down by 44%
- Organic growth in local currencies -39%

EBIT

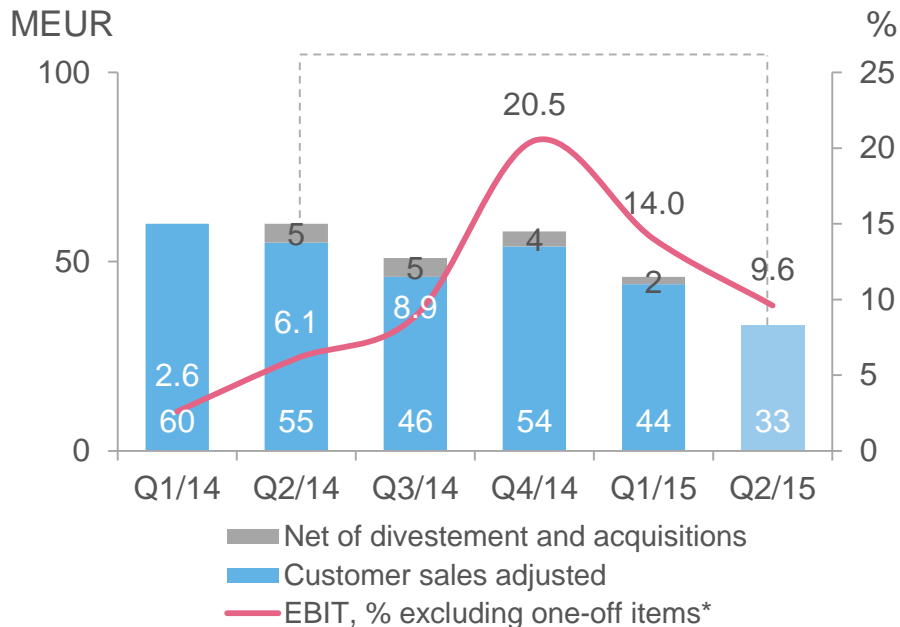
- EBIT EUR 5.7 (-2.3) million, 17.1% (-3.8)
- EBIT excluding one-off items*
EUR 3.2 (3.7) million, 9.6% (6.1)

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

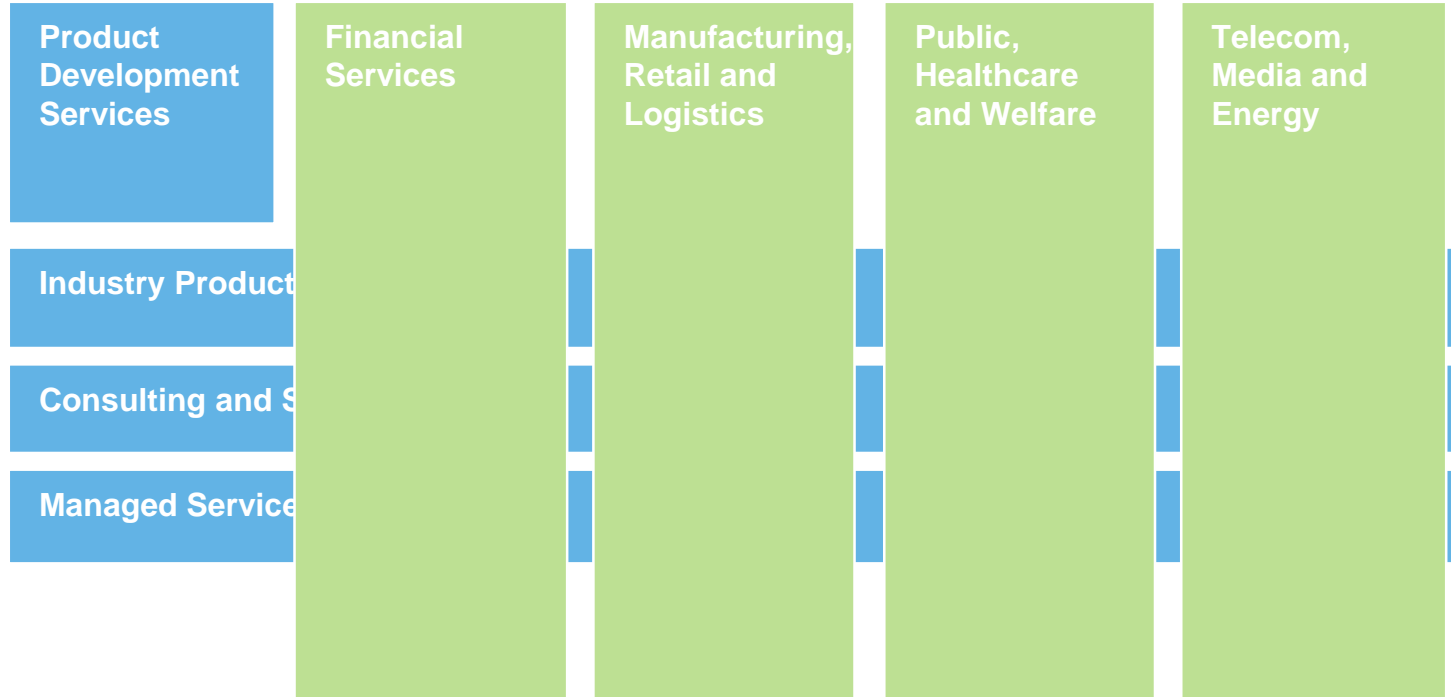
Change in PDS leadership

- Tom Leskinen appointed Head of PDS



*) Excluding capital gains, impairments and restructuring costs

Industry Groups



Financial Services

Customer sales Q2

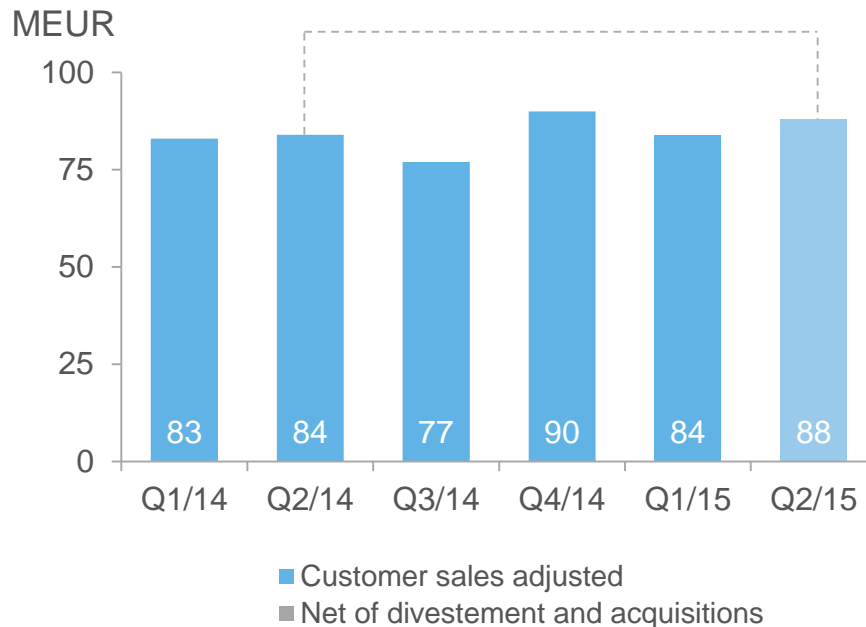
- EUR 88 (84) million, up by 4%
- Organic growth in local currencies 6%, or 10% excluding revenue recognized from equipment sales

Sales split by service line

| | Q2/2015 | Q2/2014 |
|-----|---------|---------|
| MS | 47% | 48% |
| CSI | 21% | 20% |
| IP | 32% | 32% |

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



Manufacturing, Retail and Logistics

Customer sales Q2

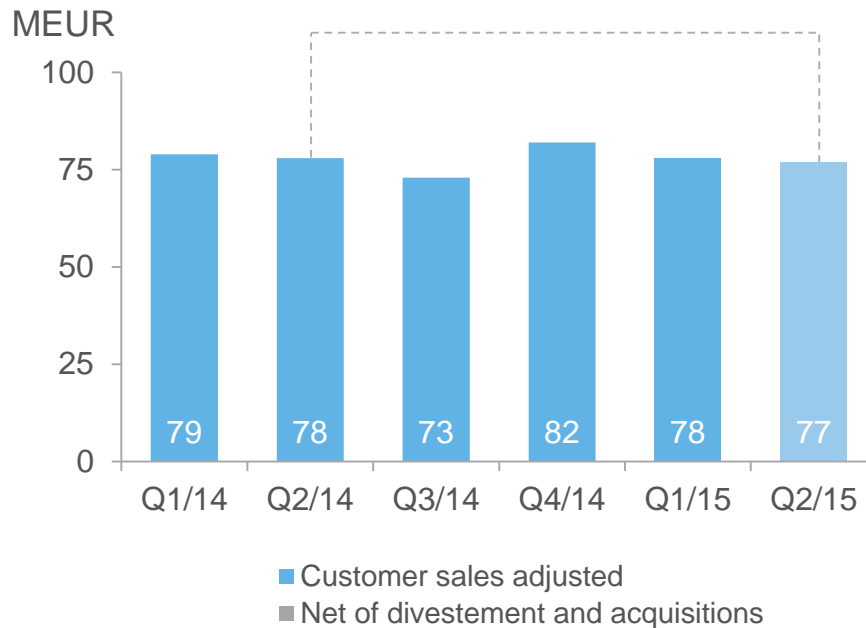
- EUR 77 (78) million, at previous year's level
- Sales in local currencies at the Q2/2014 level

Sales split by service line

| | Q2/2015 | Q2/2014 |
|-----|---------|---------|
| MS | 52% | 52% |
| CSI | 38% | 38% |
| IP | 10% | 10% |

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

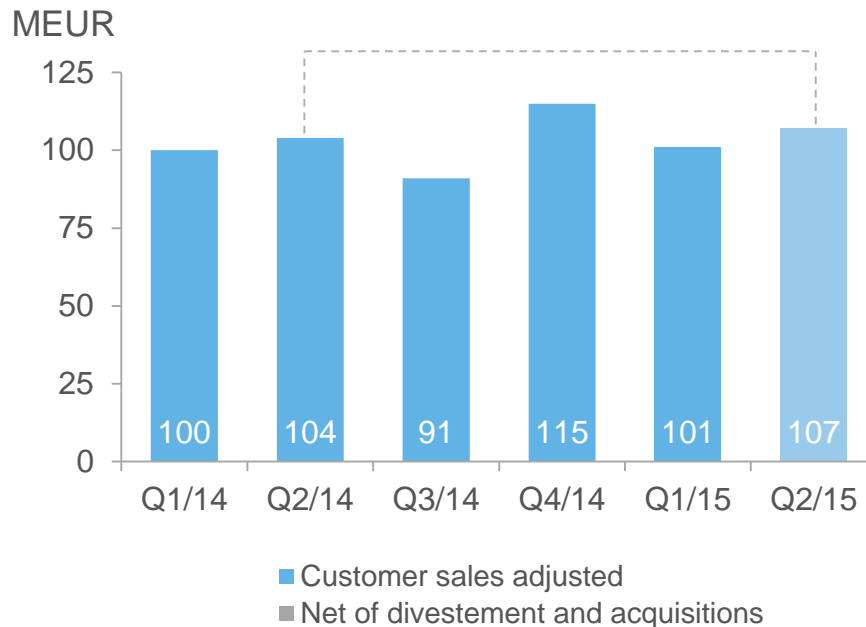
- EUR 107 (104) million, up by 2%
- Organic growth in local currencies 4%

Sales split by service line

| | Q2/2015 | Q2/2014 |
|-----|---------|---------|
| MS | 37% | 38% |
| CSI | 25% | 24% |
| IP | 38% | 38% |

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

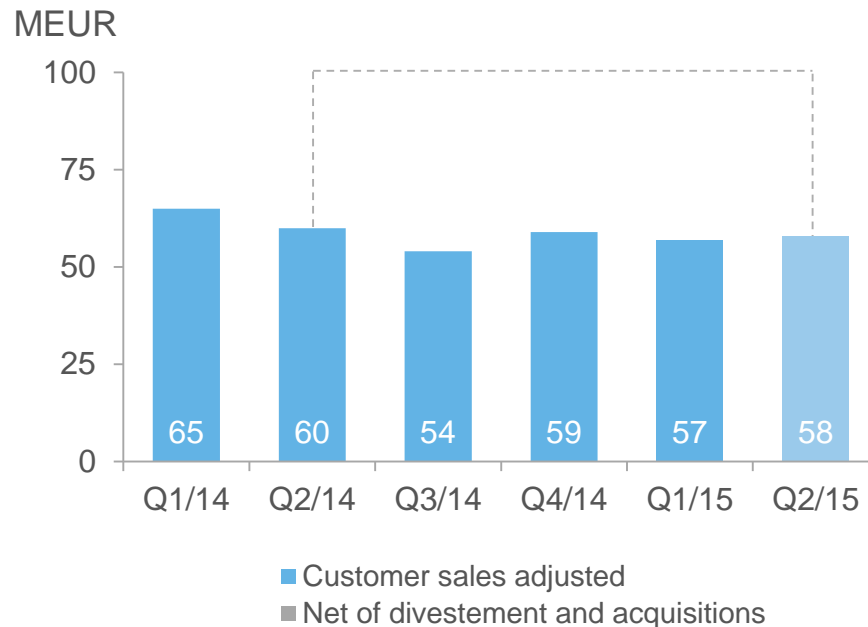
- EUR 58 (60) million, down by 3%
- Organic growth in local currencies -1%

Sales split by service line

| | Q2/2015 | Q2/2014 |
|-----|---------|---------|
| MS | 17% | 19% |
| CSI | 45% | 42% |
| IP | 38% | 39% |

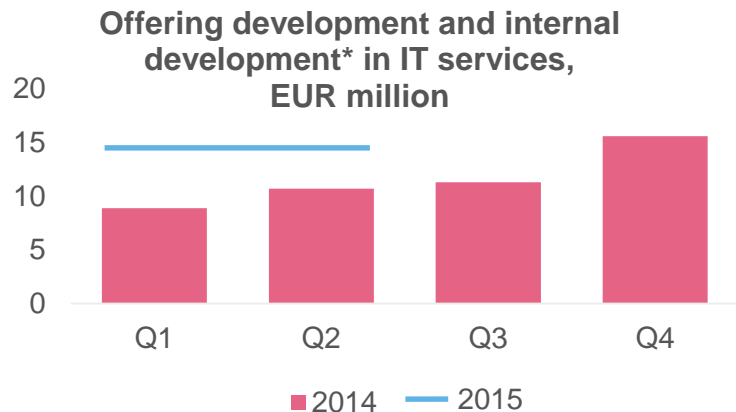
Q2 highlights

- 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



*) related to MS automation programme

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)

- 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

Performance drivers 2015

| Performance drivers in IT services | H1 Impact on profitability ¹⁾ | H2 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 |

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

¹⁾ Illustrative, in comparison with the previous year

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



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

