Tieto Q4 2016
Year of increased investments ends with solid performance

2 February 2017
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Lasse Heinonen – CFO
Tanja Lounevirta – Head of IR
Q4 2016 in brief

Year of increased investments ends with solid performance

• Strong order intake with fourth-quarter book-to-bill 1.5
• Sales growth 2% in the fourth quarter, IT services up by 3%
• Adjusted operating margin over 12%
• Increased competitiveness driven by investments, continued automation and efficiency programme
• Dividend of EUR 1.37 proposed
Outlook in the Nordic IT market remains solid
Somewhat improved economic outlook in Finland

IT market affected by economic outlook

- Positive outlook in Sweden continues
- Somewhat improved outlook in Finland

Tieto expects the Nordic IT services market to grow by 2–3% in 2017
- IT services market strongest in Sweden
- Market change driven by investments in digitalization and efficiency improvement
- Emerging services expected to experience double-digit growth – decline in traditional services will continue

Source: Nordea Markets, Economic Outlook, 1/2017
**Business mix shifting towards high-growth services**

**Tieto’s growth ambition for IT services:**
Faster than the market** (CAGR 2015-2020)

<table>
<thead>
<tr>
<th>2015</th>
<th>2020</th>
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</thead>
<tbody>
<tr>
<td>~ 50%</td>
<td>~ 50%</td>
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</table>

- Emerging services - software & digital*
- Traditional services

**Sales growth in 2016–2020 (CAGR)**

- **Industry solutions**
  - UP BY 10–20%
- **Cloud and modernization services**
  - UP BY 10–20%
- **New data-driven businesses**
- **Other integration and services**

**Development 1–12/2016**

- **High-growth businesses**
  - ~EUR 330 million, 24% of IT services sales
  - Growth 18%
- **Other emerging services and solutions**
  - ~EUR 455 million, 33% of IT services sales
  - Growth 8%
- **Traditional services**
  - ~EUR 590 million, 43% of IT services sales
  - Down by 5%

*Includes high-growth businesses and internal start-ups which represented ~20% of IT services sales in 2015

**Market growth expectation (CAGR) for the Nordics at 1.5–3%**

5 Cloud services, Security Services, Customer Experience Management, Data-Driven Businesses and Lifecare
Our long-term renewal supported by evolving competence mix

- Investing in competence renewal in 2016
  - Over 130 consultants recruited in Nordics
  - Close to 900 software developers recruited globally
  - Close to 100 architects
  - Gross recruitments in Sweden 370, in Finland 300
  - Headcount in India and Czech increased by 500

Net increase of 800 employees

- 2,700 total recruitments
Strong solution foundation to accelerate performance – offering investments up to 75 mEUR

High-growth businesses as from 2014
- Cross-industry solutions

Customer Experience
~40 mEUR
34% growth

Data-driven businesses
Started in H2/2016

Security services
~10 mEUR
16% growth

Cloud & orchestration
~ 110 mEUR
36% growth

Selected Industry Solutions

Financial services: Banking and payments

Healthcare: Lifecare

Manufacturing: Production Excellence

Public sector: Case management

Oil & Gas: Hydrocarbon accounting

Energy: SmartUtility

~170 mEUR
6% growth

~16% growth
~36% growth

~40 mEUR
34% growth

~10 mEUR
16% growth

~110 mEUR
36% growth

~16% growth
~36% growth

~6% growth

Growth in 2016
Q4 2016 key figures

Net sales
- EUR 404 (396) million, +2.0%, growth in local currencies +3.5%
  - Acquisitions added EUR 8.3 million
  - Currency impact EUR -6 million
  - In IT services, sales growth 2.7%, or 3.9% in local currencies
    - Organic growth in local currencies 1.6%

EBIT
- EBIT EUR 45.1 (46.8) million, 11.2% (11.8%)
- Adjusted* EBIT EUR 49.5 (51.4) million, 12.3% (13.0%)

Order backlog
- Order backlog EUR 1 847 (2 030) million
- Total Contract Value EUR 613 (640) million
- Book-to-bill 1.5 (1.6)

Earnings per share
- EPS EUR 0.46 (0.47)
- EPS EUR 0.51 (0.51), adjusted*)

*) adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items
Long-term financial development favorable

Full-year net sales
- EUR 1,493 (1,460) million, +2.2%, growth in local currency +3.2%
- IT services growth 4.3%, growth in local currency +5.3%

Full-year EBIT
- EBIT EUR 140.8 (125.2) million, 9.4% (8.6)
- Adjusted*** EBIT EUR 152.2 (150.8) million, 10.2% (10.3%)
  - Restructuring costs ~1% of sales
  - Savings based on automation and industrialization EUR 29 million
  - Includes EUR 3.3 (1.2) million in allocated acquisition-based amortization

Dividend proposal
- Proposed dividend EUR 1.37 per share
  - Base dividend EUR 1.15 (1.10)
  - Additional dividend EUR 0.22 (0.25)
- Dividend yield 5.3%

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***) Adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items

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**) Additional dividend

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*) Proposed dividend
Consistent performance improvement while having increased investments

IT services sustainably driving growth

**Increased investments in offering development**
- Annual offering investments up to EUR 75 million from EUR 40 million in 2013
- Offering development costs up by EUR 15 million in 2016

**Other investments in 2016**
- Net recruitments 800 employees – impact on cost base ~20 mEUR
- Acquisition of Emric
- Capital expenditure EUR 62 (51) million, around 4% of sales

*) adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items
Quarterly development

Number of full-time employees and offshore ratio

- Employees: 45.5, 46.0, 45.8, 46.2, 46.7, 47.4, 47.6, 47.9
- Offshore ratio: Q1/15: 0.6, Q2/15: 0.0, Q3/15: 0.4, Q4/15: 0.1, Q1/16: 0.5, Q2/16: 0.7, Q3/16: 0.6

Net of divestment and acquisitions
Customer sales adjusted

Net debt/EBITDA

Quarterly development

- Net cash from operations: Q1/15: -25, Q2/15: -5, Q3/15: 35, Q4/15: 75, Q1/16: 95, Q2/16: 95, Q3/16: 95, Q4/16: 95
- Capital expenditure: Q1/15: -25, Q2/15: -5, Q3/15: 35, Q4/15: 75, Q1/16: 95, Q2/16: 95, Q3/16: 95, Q4/16: 95

Number of personnel up by a net amount of 793
Offshore ratio: IT services 46.2% (44.6%) PDS 64.7% (60.7%)
### Growth in local currencies by Service Line and Industry Group

<table>
<thead>
<tr>
<th>Service Lines and Industry Groups</th>
<th>Q4/15</th>
<th>Q4/16</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technology Services and Modernization</strong></td>
<td>196 MEUR</td>
<td>200 MEUR</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Business Consulting and Integration</strong></td>
<td>34 MEUR</td>
<td>38 MEUR</td>
<td>12% / 2%*</td>
</tr>
<tr>
<td><strong>Industry Solutions</strong></td>
<td>133 MEUR</td>
<td>139 MEUR</td>
<td>5% / 1%*</td>
</tr>
<tr>
<td><strong>Product Development Services</strong></td>
<td>33 MEUR</td>
<td>33 MEUR</td>
<td>-1%</td>
</tr>
<tr>
<td><strong>Financial Services</strong></td>
<td>93 MEUR</td>
<td>103 MEUR</td>
<td>11% / 6%*</td>
</tr>
<tr>
<td><strong>Public, Healthcare and Welfare</strong></td>
<td>134 MEUR</td>
<td>137 MEUR</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Industrial and Consumer Services</strong></td>
<td>137 MEUR</td>
<td>137 MEUR</td>
<td>0% / -2%*</td>
</tr>
</tbody>
</table>

*) Organic growth in local currencies (not shown for businesses where acquisition impact is not significant)
# Service Lines

**New data-driven businesses**

## Technology Services and Modernization

<table>
<thead>
<tr>
<th>Business consulting &amp; implementation</th>
<th>Financial Services</th>
<th>Public, Healthcare and Welfare</th>
<th>Industrial and Consumer Services</th>
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<td>Industry solutions</td>
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**Financial Services**

**Public, Healthcare and Welfare**

**Industrial and Consumer Services**

**Product Development Services**

*Reported in Industry Solutions*
Technology Services and Modernization

Customer sales in Q4
• EUR 197 (196) million, +1%, growth of 2% in local currencies

EBIT
• EBIT EUR 26.2 (30.3) million, 13.3% (15.5)
• Adjusted* EBIT EUR 27.7 (30.9) million, 14.1% (15.8)

Q4 highlights
• Cloud sales up by 23% in Q4, representing 22% of infrastructure services
• Strong growth in shared, standardized workspace services continues
• Service standardization and automation initiatives continue
• EBIT somewhat down due to exceptionally strong Q4/2015
• Measures to ensure continued competitiveness will affect operating margin mainly in the second half of 2017
• Q1 margin expected to be at the Q1/2016 level

*) adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items
Customer sales Q4
• EUR 38 (34) million, +10%, growth of 12% in local currencies
• Organic growth in local currencies 2%

EBIT
• EBIT EUR 2.0 (1.3) million, 5.3% (3.7)
• Adjusted* EBIT EUR 0.7 (2.0) million, 1.8% (5.7)

Q4 highlights
• Growth supported by acquisitions of Smilehouse and Imano
• Demand strongest in Customer Experience Management and consulting services
• Investments in growth, incl. recruitments for eCommerce
• Continued overcapacity in Enterprise Applications
  • Significant agreements started during the quarter
• Utilization rate anticipated to improve based on the efficiency improvement programme
• Margin improvement expected to materialize as from Q2/2017

*) adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items
Industry Solutions

Customer sales Q4
• EUR 138 (132) million, +4%, growth of +5% in local currencies
• Organic growth in local currencies 1%

EBIT
• EBIT EUR 19.7 (20.8) million, 14.3% (15.7)
• Adjusted* EBIT EUR 21.5 (21.5) million, 15.5% (16.2)

Q4 highlights
• FS growth supported by the acquisition of Emric, Lifecare up by 5%
• Strong order intake in all main businesses
• Offering development costs up by EUR 5 million, including data-driven businesses – impact of 3.6 %-points on margin
• Q1 margin anticipated to be at the level of Q1/2016

*) adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items
Customer sales Q4
- EUR 31 (33) million, -5%, decline of 1% in local currencies

EBIT
- EBIT EUR 3.3 (2.8) million, 10.6% (8.4)
- Adjusted* EBIT EUR 3.5 (3.1) million, 11.3% (9.4)

Q4 highlights
- Business with largest key customers was growing mainly due to good development in the Radio area
- New customer acquisition continued – new business did not fully compensate for the anticipated end-of-life projects
- Q4 operating margin improved clearly due to improved utilization rate and healthy cost structure
- Q1 margin anticipated to be at or above the level of Q1/2016

*) adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items
Industry Groups

New data-driven businesses *)

Business consulting & implementation

Industry solutions

Technology Services and Modernization

Product Development Services

Reported in Industry Solutions

Financial Services

Public, Healthcare and Welfare

Industrial and Consumer Services
Financial Services

Customer sales Q4
- EUR 101 (92) million, +10%, growth of 11% in local currencies
- Organic growth in local currencies 6%

Sales split by service line

<table>
<thead>
<tr>
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<th>Q4/2016</th>
<th>Q4/2015</th>
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<tr>
<td>TSM</td>
<td>56%</td>
<td>58%</td>
</tr>
<tr>
<td>BCI</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>IS</td>
<td>39%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Q4 highlights
- Acquisition of Emric support growth
- Growth driven by new projects driving IT efficiency and digital services, especially in Finland
- Agreements with Arek, Folksam, Etera, Marginalen Bank

![Graph showing customer sales adjusted net of divestment and acquisitions]
Public, Healthcare and Welfare

Customer sales Q4
- EUR 135 (133) million, +1%, growth of 3% in local currencies

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<th>Q4/2015</th>
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<tr>
<td>TSM</td>
<td>44%</td>
<td>43%</td>
</tr>
<tr>
<td>BCI</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>IS</td>
<td>48%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Q4 highlights
- Growth was strongest in industry-specific solutions – organic growth of around 4%
- Transition projects in infrastructure services in Finland contributed to growth
- Strong maintenance growth – price increases and good licence sales in 2015
- Reforms in the social and welfare sector across the Nordic countries provide growth opportunities
Industrial and Consumer Services

Customer sales Q4
- EUR 137 (137) million, remained at the previous year’s level
- Organic growth in local currencies -2%

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<td>62%</td>
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<tr>
<td>BCI</td>
<td>17%</td>
<td>15%</td>
</tr>
<tr>
<td>IS</td>
<td>24%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Q4 highlights
- Sales supported by the acquisition of Imano and Smilehouse
- Organically, sales were down due to anticipated lower project business volumes for one Telecom customer
- Demand in the energy utilities segment remained good
- Healthy order intake in Q4 – several new agreements, e.g. Fortum and COOP Mitt & Väst
Way forward
We continue to drive growth and efficiency – for our customers and us

- **Innovation**: Accelerate investments in innovation and growth
- **Duality**: New opportunities to support customers in their business renewal
- **Efficiency**: Continuously optimize operations for scale and efficiency
Our prime objectives for 2017

- Accelerate growth and innovation
- Quality & customer experience
- Drive productivity
- Develop skills for the future
Performance drivers

2017 – IT services

We aim to grow faster than the market, growth supported by acquisitions.

Efficiency programme: impact of over 20 mEUR, annualized gross savings close to 40 mEUR.

Offering development costs remain at the 2016 level and around 5% of Group sales.

Restructuring costs 1–2% of Group sales.

Performance drivers in IT services in 2017

Adjusted EBIT 2016

Sales growth and business mix change

Growth investments

Salary inflation

Automation and industrialization and other productivity gains

Adjusted EBIT 2017
Guidance for 2017

Tieto expects its full-year adjusted*) operating profit (EBIT) to increase from the previous year’s level (EUR 152.2 million in 2016).

*) Adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items
Q4 2016 in brief

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