Tieto Q3 2017

Good third-quarter performance – strong improvement in customer experience results

24 October 2017

Kimmo Alkio – President and CEO
Lasse Heinonen – CFO
Tanja Lounevirta – Head of IR
Q3 2017 in brief

Good third-quarter performance – strong improvement in customer experience results

• Revenue growth over 4% – continued solid market demand
• Operating margin close to 12% – improvement in all businesses with Industry Solutions’ margin rising to over 14%
• All-time high Net Promoter Score as customer experience initiatives paying off
• Public offer to acquire Avega announced in October – to accelerate growth in Sweden
Tieto announced a public offer for Avega
- aims to strengthen its position as the preferred business renewal partner

<table>
<thead>
<tr>
<th>Avega Group</th>
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</thead>
<tbody>
<tr>
<td>• The Avega Group creates services, products and business models for the modern society by offering specialist consultants in business development and IT</td>
</tr>
<tr>
<td>• 350 business and digitalization consultants</td>
</tr>
<tr>
<td>• Net sales EUR 45.2 million (SEK 428 million) in 2016</td>
</tr>
<tr>
<td>• Balanced and attractive customer portfolio</td>
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<table>
<thead>
<tr>
<th>Avega and Tieto together</th>
</tr>
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<tbody>
<tr>
<td>• Strong local <strong>consulting capabilities</strong>, especially in business transformation, digital consulting and customer experience management</td>
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<tr>
<td>• Extensive capabilities to provide both consulting services and <strong>deliver large projects</strong> to accomplish business transformation objectives</td>
</tr>
<tr>
<td>• Wide-ranging business renewal proposition covering consulting, system integration, <strong>industry-specific software and industrialized managed services</strong></td>
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Outlook in the Nordic IT market remains solid
Growth in the Nordic economies picked up in 2017

IT market affected by economic outlook

- Positive outlook in Sweden continues
- 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
- EU GDPR taking effect in May 2018
  - New opportunities in Application Services and Security

Source: Nordea Markets, Economic Outlook, 3/2017
High-growth businesses driving growth

Application Services’ growth 6% in Q3 while decline in traditional infrastructure 3%

TIETO’S GROWTH AMBITION FOR IT SERVICES: FASTER THAN THE MARKET* (CAGR 2015-2020)

SALES GROWTH 2016–2020 (CAGR)

SHARE OF IT SERVICES 1-9/2017

GROWTH 1-9/2017

- High-growth businesses**
  - Selected industry solutions and high-growth services
  - 37%
  - 10%
- Other services and solutions
  - 20%
  - 4%
- Traditional services
  - 43%
  - -1%

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

**Selected high-growth industry solutions comprise Lifecare, Case management, Payments and Banking solutions.

High-growth services comprise Customer Experience Management, Cloud services and Security Services.

IT services annual sales EUR 1 376 million in 2016
## High-growth businesses up by 10%

<table>
<thead>
<tr>
<th>SERVICE LINE</th>
<th>SERVICE LINE Growth 1–9/2017</th>
<th>HIGH-GROWTH BUSINESSES</th>
<th>Annual sales 2016</th>
<th>Growth 1–9/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Solutions**)</td>
<td>7%</td>
<td>Selected high-growth industry solutions</td>
<td>EUR ~ 320 million</td>
<td>8%</td>
</tr>
<tr>
<td>EUR 475 million</td>
<td></td>
<td>Data-Driven Businesses</td>
<td></td>
<td>8%</td>
</tr>
<tr>
<td>Business Consulting and Implementation</td>
<td>7%</td>
<td>Customer Experience Management</td>
<td>EUR ~ 30 million</td>
<td>30%</td>
</tr>
<tr>
<td>EUR 139 million</td>
<td></td>
<td></td>
<td></td>
<td>13%</td>
</tr>
<tr>
<td>Technology Services and Modernization**</td>
<td>1%</td>
<td>Cloud services</td>
<td>EUR ~ 100 million</td>
<td>10%</td>
</tr>
<tr>
<td>EUR 762 million</td>
<td></td>
<td>Security Services</td>
<td>EUR ~ 10 million</td>
<td>24%</td>
</tr>
</tbody>
</table>

Breakdown of TSM sales:
- Cloud services 18%
- Other emerging services 2%
- Application management 27%
- Traditional infrastructure services 53%

Selected solutions*:
- DDB: Started in H2/2016
- CEM**:
- Cloud***:
- Security:

* Incl. Lifecare, Case management, Payments, Banking solutions
** CEM/Financial Services not included as that transferred to Industry Solutions as from 1 July 2016 – growth comparable to 1–9/2016
*** Sales for cloud services including Value Networks (solution for the management of financial value chain) amounted to EUR 120 million
Q3 2017 key figures

Net sales
- EUR 355 (341) million, +4.2%, growth in local currencies +4.5%
  - Acquisitions added EUR 3 million
  - Currency impact EUR -1 million
- In IT services, sales growth 3.8%, or 4.0% in local currencies
  - Organic growth in local currencies 3.1%

EBIT
- EBIT EUR 41.1 (35.1) million, 11.6% (10.3%)
- Adjusted* EBIT EUR 41.2 (35.4) million, 11.6% (10.4%), currency impact EUR -0.3 million

Order backlog
- Order backlog EUR 1 689 (1 722) million
- Contract Value EUR 271 (406) million, affected by the timing of large contracts
- Book-to-bill 0.8 (1.2)

Earnings per share
- EPS EUR 0.46 (0.37)
- EPS EUR 0.46 (0.38), adjusted*
Significance of order intake and backlog is changing
The total market is expected to remain dynamic and to continue to grow

Market trends affecting order intake

- Total market expected to continue to grow while
  - shifting towards agile methods and consumption-based business models
  - traditional development programmes cut into smaller projects
  - binding durations and values in new contracts reduced while frame agreements pose revenue opportunities

Q3 characteristics

- Q3 order intake affected by
  - timing of some large contracts: some large contracts postponed to Q4 – Q3/2016 included a large agreement worth over EUR 100 million

Book-to-bill rolling 12m 1.0
Book-to-bill 0.8 (1.2)
Quarterly development

Net sales

- MEUR
- Q1/16: 367
- Q2/16: 381
- Q3/16: 341
- Q4/16: 404
- Q1/17: 388
- Q2/17: 381
- Q3/17: 352

- Net of divestment and acquisitions
- Customer sales adjusted

Number of full-time employees and offshore ratio

- Employees
- Q1/16: 46,7
- Q2/16: 47,2
- Q3/16: 47,4
- Q4/16: 47,9
- Q1/17: 48,6
- Q2/17: 49,0
- Q3/17: 49,6

- MEUR
- Q1/16: 13200
- Q2/16: 13381
- Q3/16: 13758
- Q4/16: 13876
- Q1/17: 13822
- Q2/17: 13754
- Q3/17: 13851

- Number of personnel
- Offshore ratio

- Number of personnel up by a net amount of 93
- Offshore ratio: IT services 47.4% (45.9%) PDS 68.7% (62.5%)

Net debt/EBITDA

- Q1/16: -0.1
- Q2/16: 0.5
- Q3/16: 0.7
- Q4/16: 0.6
- Q1/17: 0.2
- Q2/17: 0.9
- Q3/17: 0.8

Net cash flow from operations and capital expenditure

- MEUR
- Q1/16: 46,9
- Q2/16: -13.7
- Q3/16: -16.1
- Q4/16: -24.3
- Q1/17: -9.3
- Q2/17: -16.9
- Q3/17: -9.2

- Net cash from operations
- Capital expenditure

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Growth in local currencies by Service Line and Industry Group

### Service Lines

<table>
<thead>
<tr>
<th>Service Lines</th>
<th>MEUR</th>
<th>Q3/16</th>
<th>Q3/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology Services and Modernization</td>
<td>179</td>
<td>180</td>
<td></td>
</tr>
<tr>
<td>Business Consulting and Integration</td>
<td>30</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Industry Solutions</td>
<td>106</td>
<td>114</td>
<td></td>
</tr>
<tr>
<td>Product Development Services</td>
<td>26</td>
<td>29</td>
<td></td>
</tr>
</tbody>
</table>

### Industry Groups (IT services)

<table>
<thead>
<tr>
<th>Industry Groups</th>
<th>MEUR</th>
<th>Q3/16</th>
<th>Q3/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>88</td>
<td>92</td>
<td></td>
</tr>
<tr>
<td>Public, Healthcare and Welfare</td>
<td>106</td>
<td>112</td>
<td></td>
</tr>
<tr>
<td>Industrial and Consumer Services</td>
<td>121</td>
<td>122</td>
<td></td>
</tr>
</tbody>
</table>

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

- Financial Services
- Public, Healthcare and Welfare
- Industrial and Consumer Services

- Business consulting & implementation
- Industry solutions

Technology Services and Modernization
Product Development Services

New data-driven businesses*)

*) Reported in Industry Solutions
Technology Services and Modernization

Customer sales in Q3
- EUR 180 (179) million, +1%, growth of 1% in local currencies

EBIT
- EBIT EUR 25.0 (24.2) million, 13.9% (13.5)
- Adjusted* EBIT EUR 24.9 (24.0) million, 13.8% (13.4)

Q3 highlights
- Two-fold development in traditional services
  - Decline in infrastructure services 3%
  - Application services growth 6%
- Nine-month cloud sales up by 10%
- Security Services and GDPR supporting growth
- Service standardization and automation supported margin improvement and Q3 typically the strongest
- Q4 adjusted margin expected to stay at around H1/2017 level
  - Q4/2016 exceptionally strong and included other income related to periodic Government grant

*) adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items
Business Consulting & Implementation

**Customer sales Q3**
- EUR 32 (30) million, +7%, growth of 7% in local currencies

**EBIT**
- EBIT EUR 0.7 (-0.2) million, 2.3% (-0.6)
- Adjusted* EBIT EUR 0.9 (-1.5) million, 2.8% (-4.9)

**Q3 highlights**
- Healthy growth in consulting services and Customer Experience Management across all industry groups
  - In CEM, nine-month sales up by 30%
- Improvement in adjusted operating profit
  - Billing rate improved
  - Offering development investments reduced
- Q4 adjusted margin expected to clearly improve from Q4/2016

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

Customer sales Q3
- EUR 114 (106) million, +8%, growth of 9% in local currencies
- Organic growth in local currencies 6%

EBIT
- EBIT EUR 16.6 (13.0) million, 14.5% (12.3)
- Adjusted* EBIT EUR 16.5 (13.2) million, 14.4% (12.5)

Q3 highlights
- Good growth across Industry Groups, especially in Financial Services, Energy Utilities and Manufacturing
- Adjusted EBIT improved due to better efficiency and growth
- Offering development costs at Q3/2016 level, including EUR 1 million for Data-Driven Businesses
- Q4 sales anticipated to temporarily slightly decline
  - Q4/2016 included a large delivery related to Tieto’s Intelligent Transportation Solution – an impact of around EUR 5 million on year-on-year comparison
  - High comparison number for Financial Services
- Q4 adjusted operating profit and margin anticipated to improve from Q4/2016

*) adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items
Product Development Services

Customer sales Q3
- EUR 29 (26) million, +10%, growth of 10% in local currencies

EBIT
- EBIT EUR 2.2 (1.7) million, 7.6% (6.4)
- Adjusted* EBIT EUR 2.2 (1.7) million, 7.5% (6.5)

Q3 highlights
- Strong volume development with the largest key customers
- Good development especially in the Radio and Smart Traffic areas
  - Resources in offshore locations continued to increased to meet demand
- Operating margin up due to improved billing ratio driven by growth – while seasonally lower
- Q4 adjusted margin anticipated to be at normalized levels of close to 10%

*) 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

Financial Services

Public, Healthcare and Welfare

Industrial and Consumer Services

Reported in Industry Solutions
Financial Services

Customer sales Q3
- EUR 92 (88) million, +5%, growth of 5% in local currencies
- Organic growth in local currencies 2%

Sales split by service line

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<thead>
<tr>
<th></th>
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<th>Q3/2016</th>
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<tbody>
<tr>
<td>TSM</td>
<td>57%</td>
<td>60%</td>
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<tr>
<td>BCI</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>IS</td>
<td>38%</td>
<td>36%</td>
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</tbody>
</table>

Q3 highlights
- Acquisition of Emric and a significant agreement contributing to licence sales growth in Payments
- Investments to support transition to a new product family in payments solution continue
- New agreements include Arek
- Christian Segersven appointed to lead FS and a member of Leadership Team

Customer sales adjusted net of divestment and acquisitions
Public, Healthcare and Welfare

Customer sales Q3
- EUR 112 (106) million, +6%, growth of 6% in local currencies

Sales split by service line

<table>
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<tr>
<th>Service</th>
<th>Q3/2017</th>
<th>Q3/2016</th>
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<tr>
<td>TSM</td>
<td>48%</td>
<td>47%</td>
</tr>
<tr>
<td>BCI</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>IS</td>
<td>45%</td>
<td>45%</td>
</tr>
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Q3 highlights
- Healthy growth driven by Industry Solutions
- Finland the strongest market
- Reforms in the social and welfare sector across the Nordic countries provide growth opportunities
  - Large Electronic Medical Record procurements ongoing in all Nordic countries
- Several agreements in the public sector based the Hansel frame agreement, including Ministry of Agriculture and Forestry
  - two postponed agreements based on appeal processes in Sweden
Industrial and Consumer Services

Customer sales Q3
- EUR 122 (121) million, 0%, growth of 1% in local currencies

Sales split by service line

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<tr>
<td>IS</td>
<td>24%</td>
<td>23%</td>
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Q3 highlights
- New contracts signed, while positive impact offset by expiring contracts and price erosion
- Positive development in energy utilities – good demand in billing area continues due to regulatory changes and investments in digitalized customer services
- Strong demand in Industry Consulting and Customer Experience Management
- New agreements include Cargotec
Performance drivers in 2017

IT services

1–9/2017

- Growth 4%, faster than the market
- Efficiency programme affected cost base by around EUR 12 million
- Investment levels in offering maintained at 2016 level
- Restructuring costs EUR 19 million

Q4 2017

- Q4 dynamics – Solid underlying trend
- Revenue: IS growth maybe temporarily negative
  - EUR 5 million for large HSL project
  - Strong Financial Services in Q4/2016
- Profit headwind of over EUR 5 million:
  - Incentives anticipated to be above 2016
  - Q4/2016 Government grant not expected

Full year

- We aim to grow faster than the market, growth supported by acquisitions
- Efficiency programme: impact of ~ EUR 20 million, annualized gross savings ~ EUR 40 million
- Offering development costs remain at the 2016 level and close to 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

1) Intelligent Transport Solution
Guidance for 2017 unchanged

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
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• Operating margin close to 12% – improvement in all businesses with Industry Solutions’ margin rising to over 14%
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