

Tieto Q3 2017

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

24 October 2017

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The Tieto logo is positioned in the bottom right corner of the slide. It consists of the word "tieto" in a white, lowercase, sans-serif font, set against a blue triangular background that points towards the top right corner of the slide. The overall background of the slide is a blurred office scene with several people working at desks with multiple computer monitors.

tieto

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

Avega Group

- The Avega Group creates services, products and business models for the modern society by offering specialist consultants in business development and IT
- 350 business and digitalization consultants
- Net sales EUR 45.2 million (SEK 428 million) in 2016
- Balanced and attractive customer portfolio

Avega and Tieto together

- Strong local **consulting capabilities**, especially in business transformation, digital consulting and customer experience management
- Extensive capabilities to provide both consulting services and **deliver large projects** to accomplish business transformation objectives
- Wide-ranging business renewal proposition covering consulting, system integration, **industry-specific software and industrialized managed services**



ICA banken

VOLVO



Outlook in the Nordic IT market remains solid

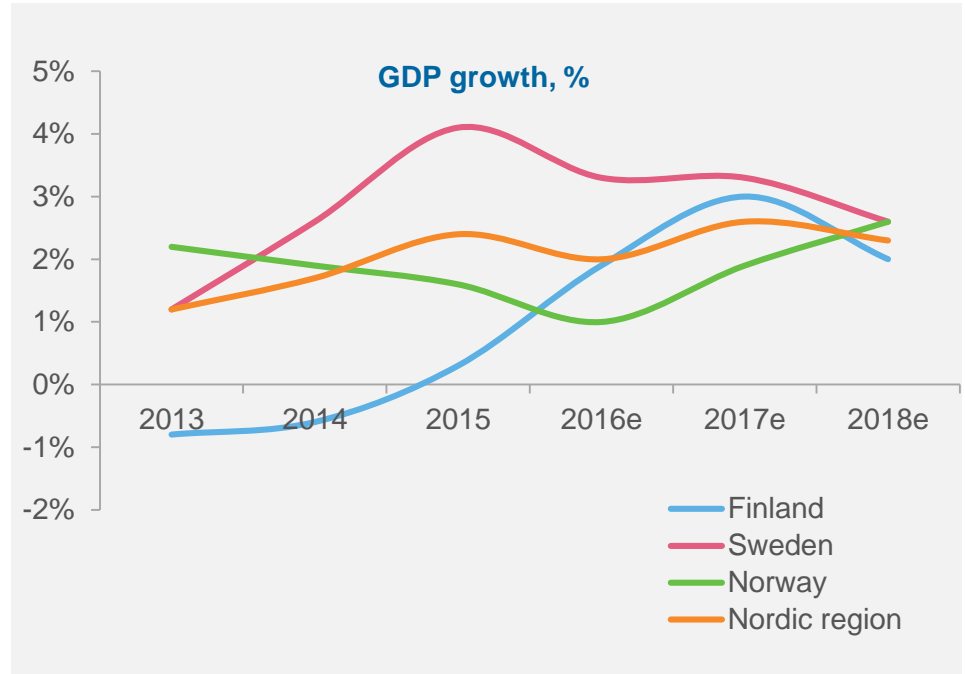
Growth in the Nordic economies picked up in 2017

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

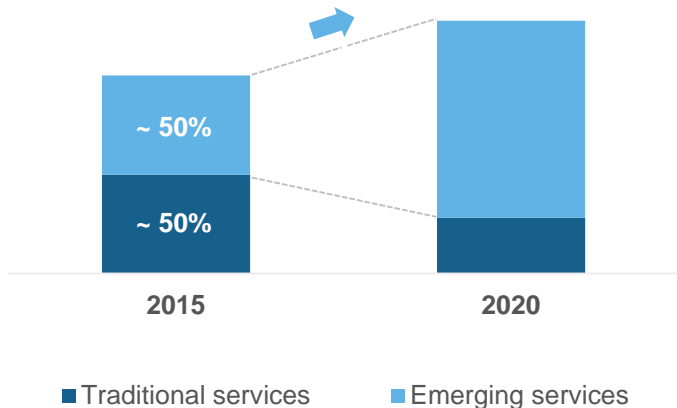
Application Services' growth 6% in Q3 while decline in traditional infrastructure 3%

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

SALES GROWTH
2016–2020 (CAGR)

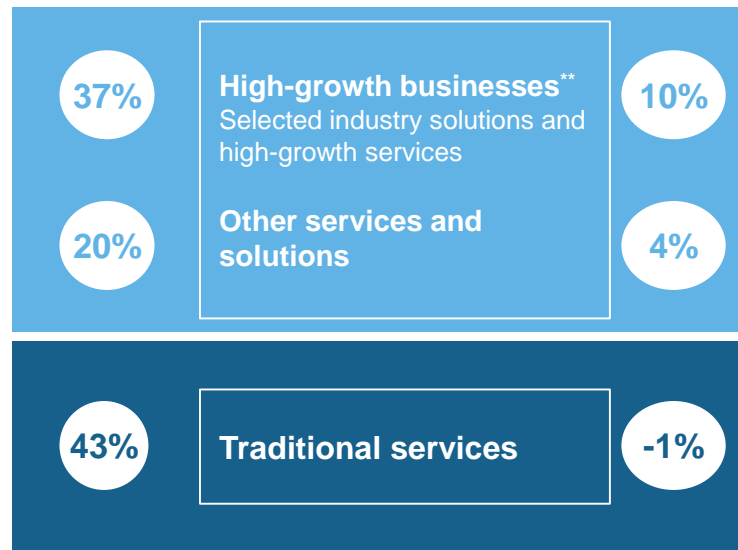
SHARE OF IT SERVICES
1-9/2017

GROWTH
1-9/2017



UP BY
10–20%

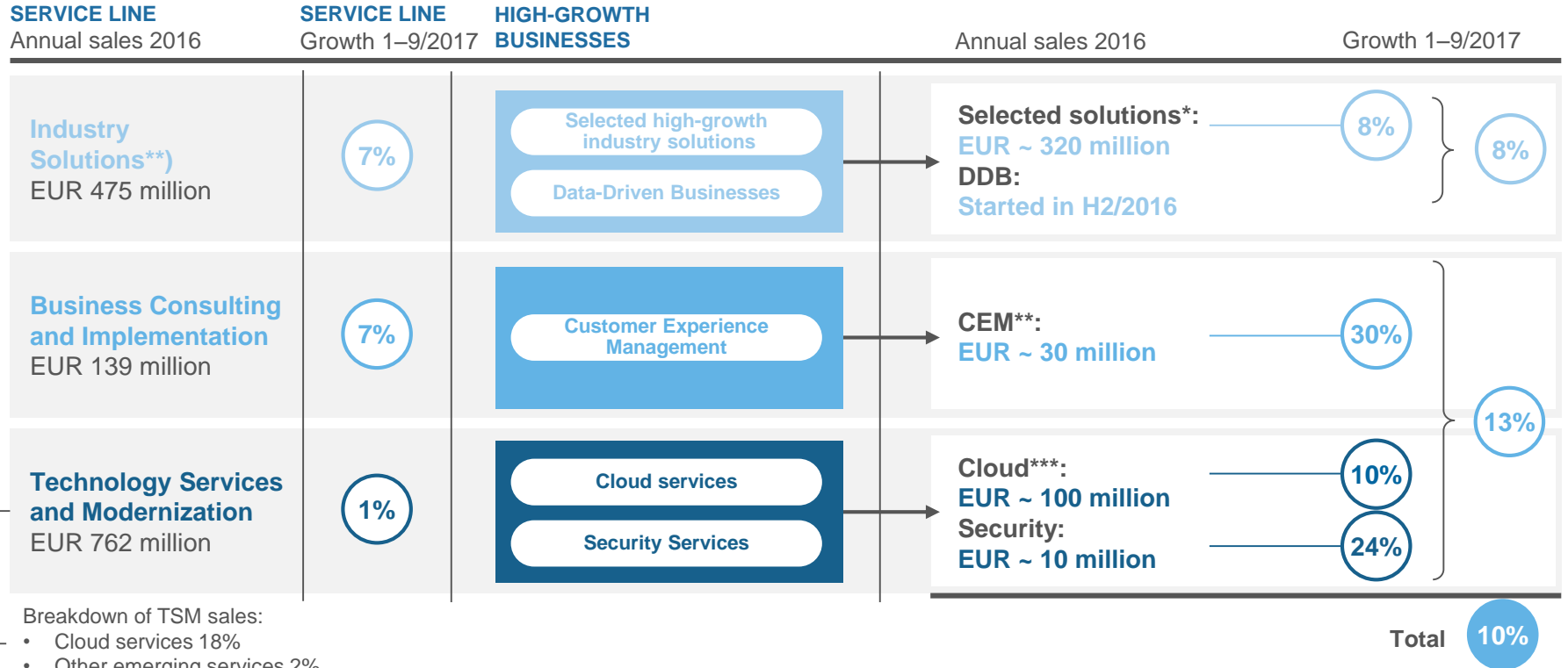
DOWN BY
5–10%



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

IT services annual sales EUR 1 376 million in 2016

High-growth businesses up by 10%



Breakdown of TSM sales:

- Cloud services 18%
- Other emerging services 2%
- Application management 27%
- Traditional infrastructure services 53%

* 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

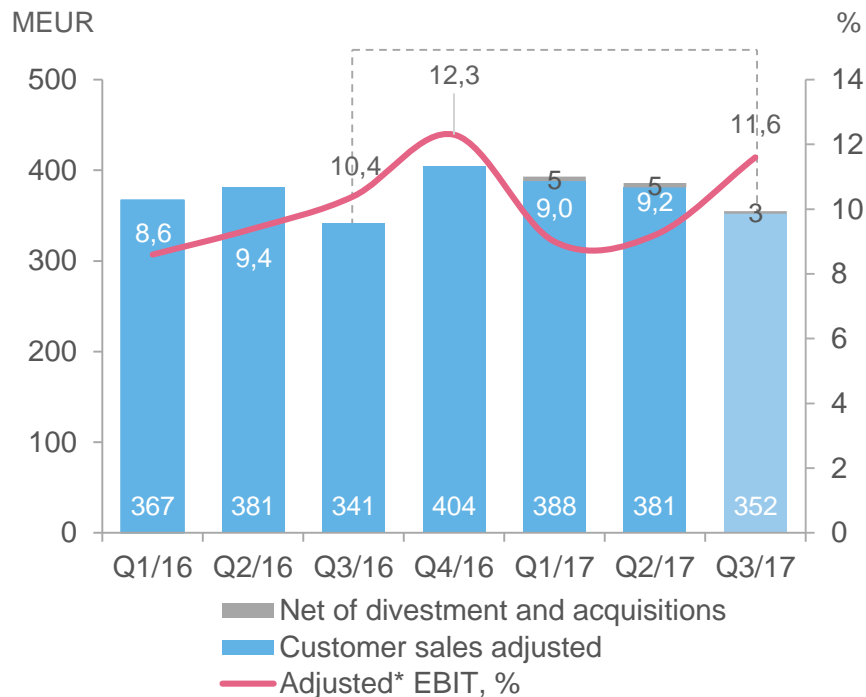
- EBIT EUR 41.1 (35.1) million, 11.6% (10.3%)
- Adjusted* EBIT EUR 41.2 (35.4) million, 11.6% (10.4%), currency impact EUR -0.3 million

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

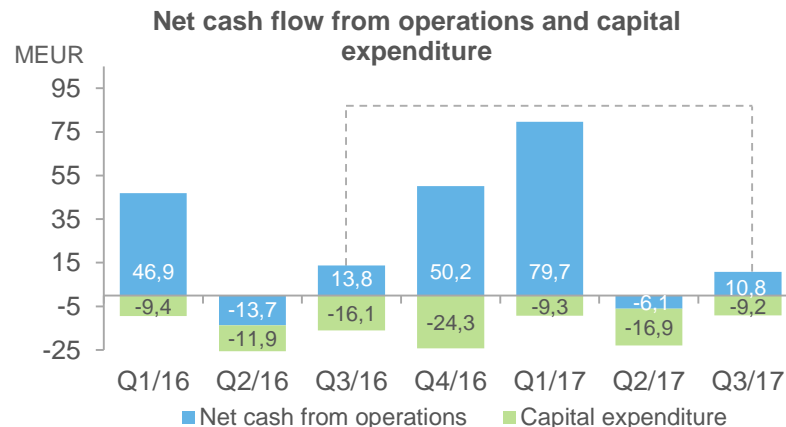
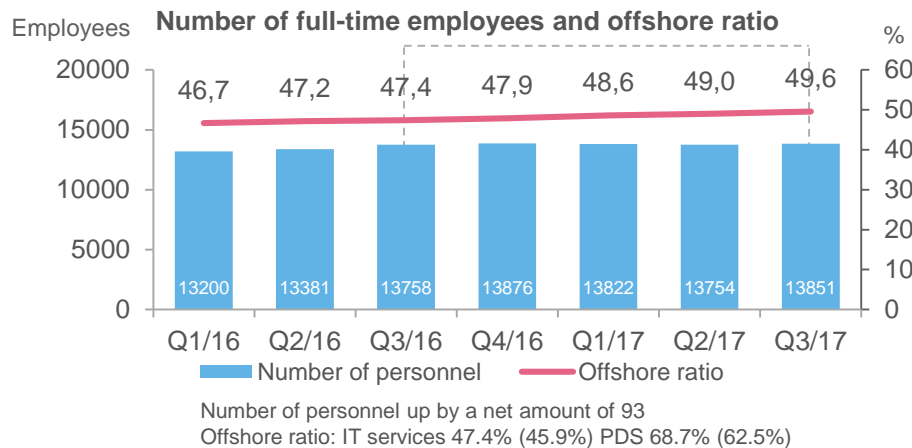
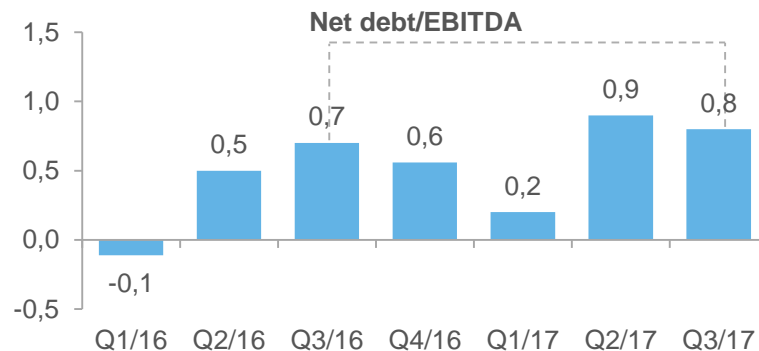
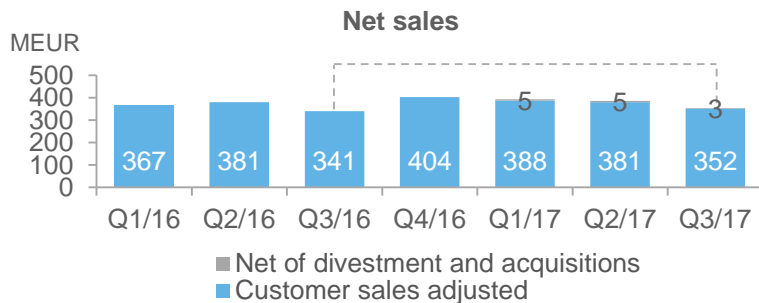
Q3 order intake affected by

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

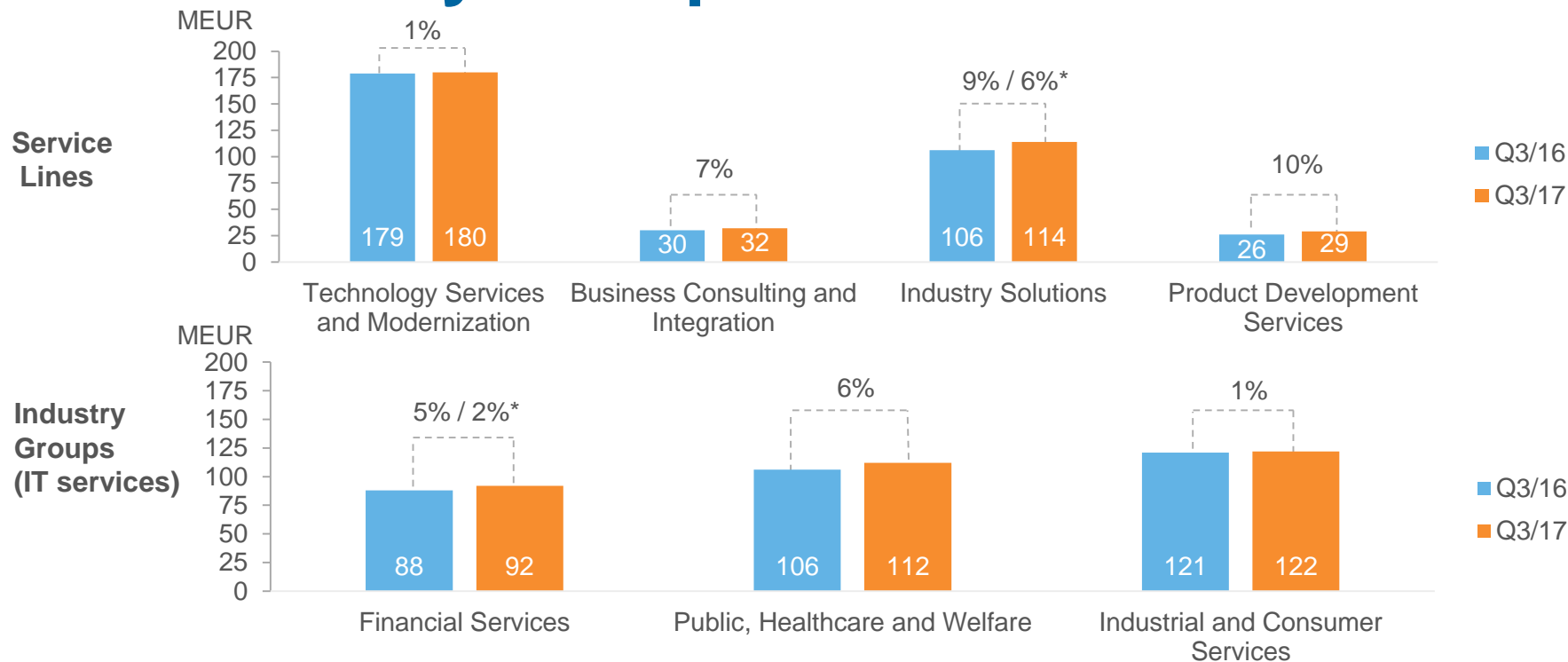
Book-to-bill
0.8 (1.2)

Book-to-bill
rolling 12m
1.0

Quarterly development

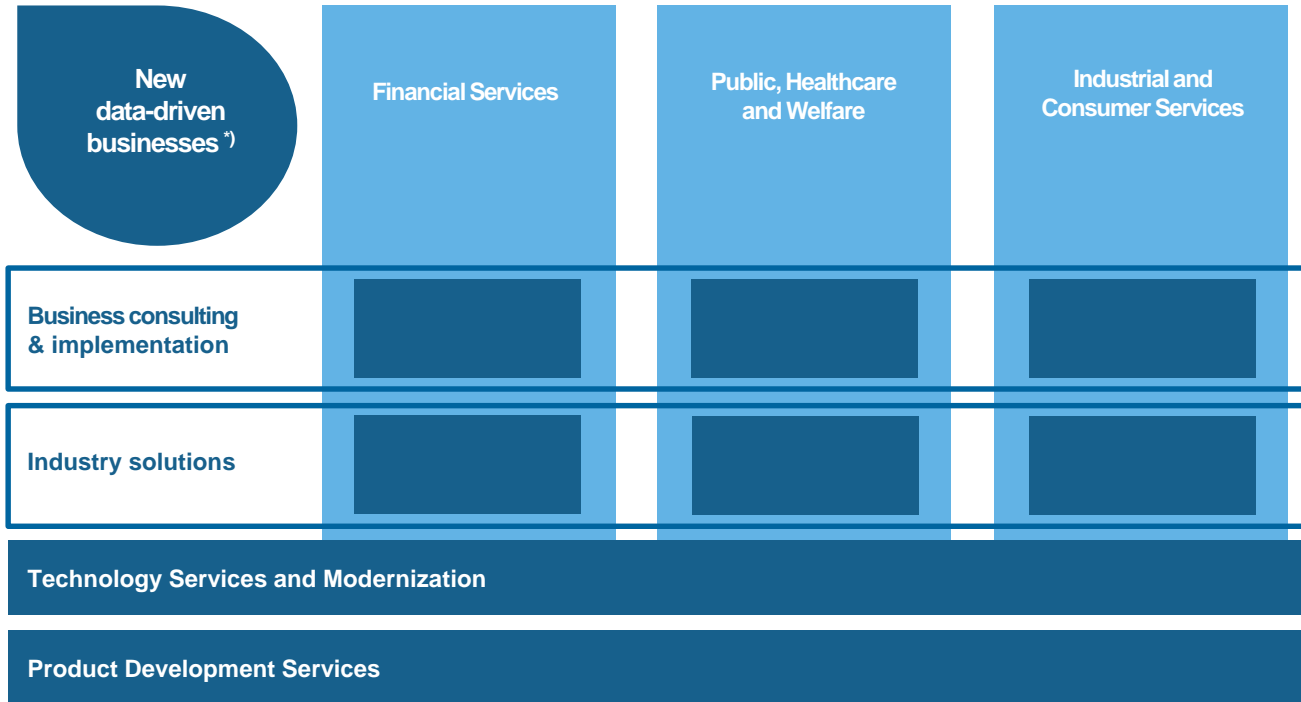


Growth in local currencies by Service Line and Industry Group



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

Service Lines



Technology Services and Modernization

Customer sales in Q3

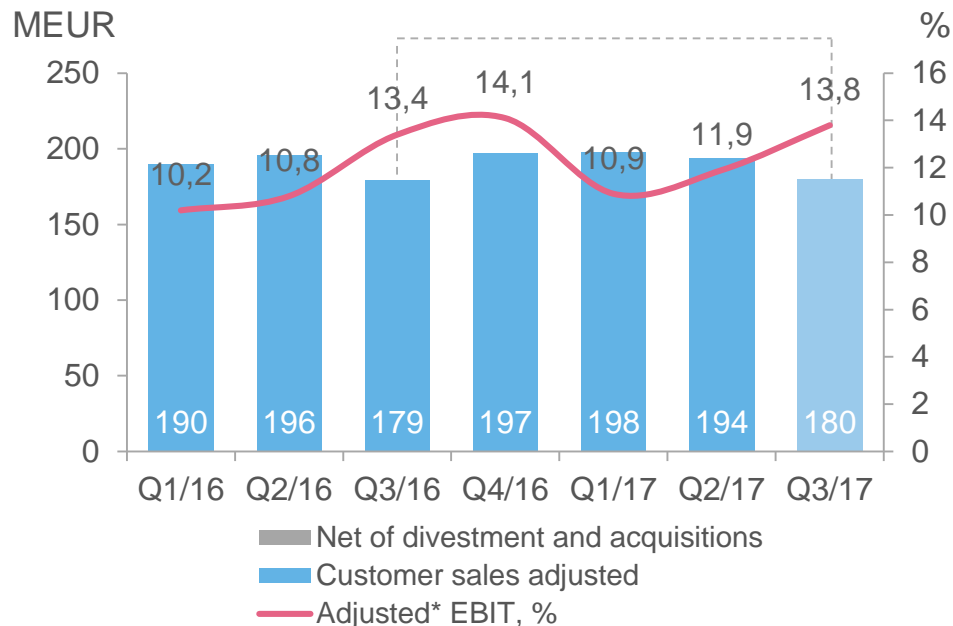
- EUR 180 (179) million, +1%, growth of 1% in local currencies

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



Business Consulting & Implementation

Customer sales Q3

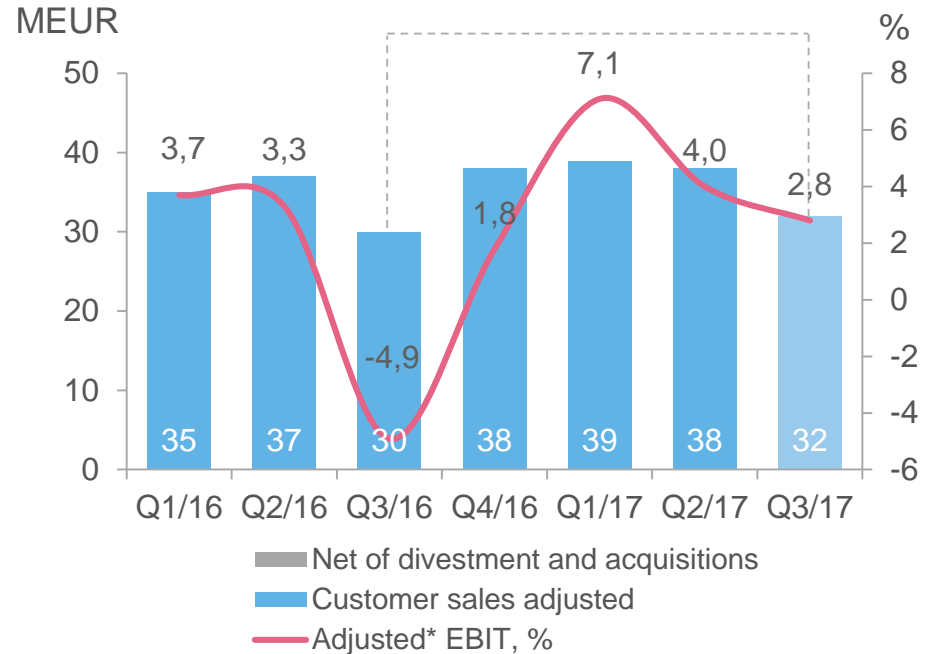
- EUR 32 (30) million, +7%, growth of 7% in local currencies

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



Industry Solutions

Customer sales Q3

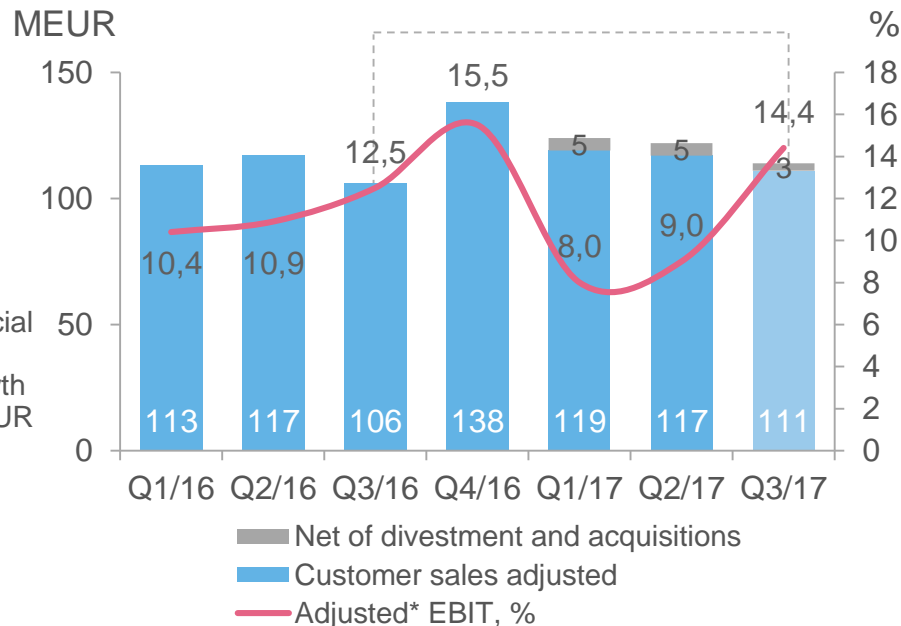
- EUR 114 (106) million, +8%, growth of 9% in local currencies
- Organic growth in local currencies 6%

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



Product Development Services

Customer sales Q3

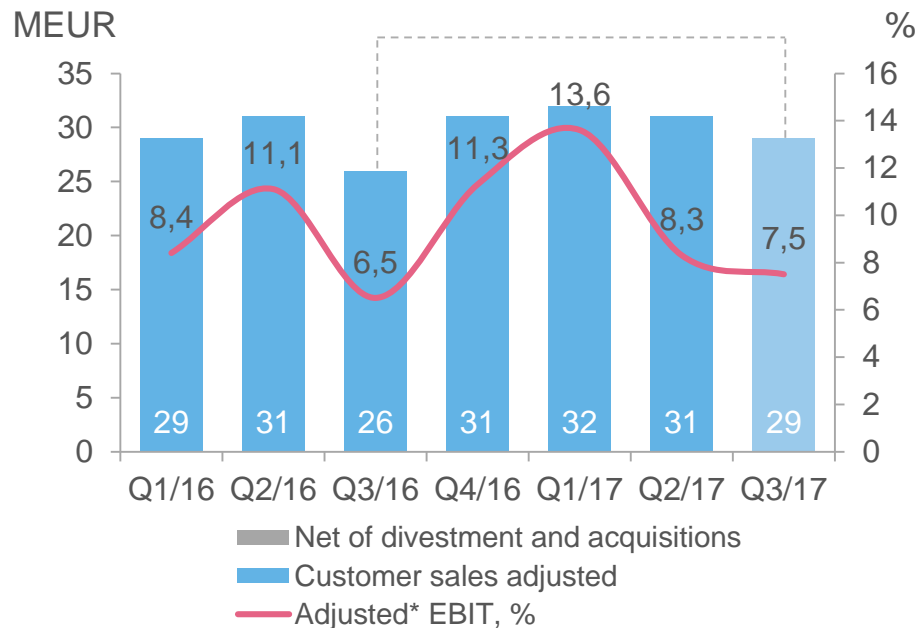
- EUR 29 (26) million, +10%, growth of 10% in local currencies

EBIT

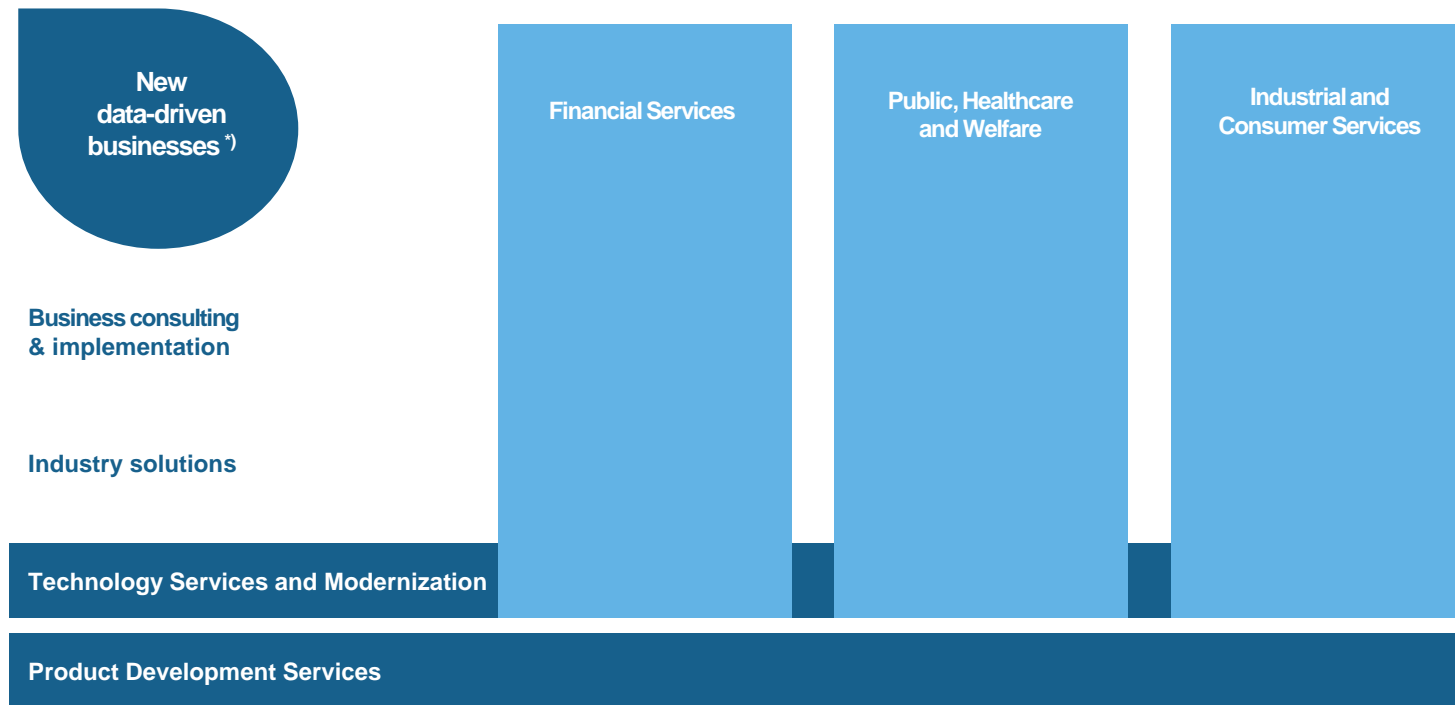
- EBIT EUR 2.2 (1.7) million, 7.6% (6.4)
- Adjusted* EBIT EUR 2.2 (1.7) million, 7.5% (6.5)

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%



Industry Groups



Financial Services

Customer sales Q3

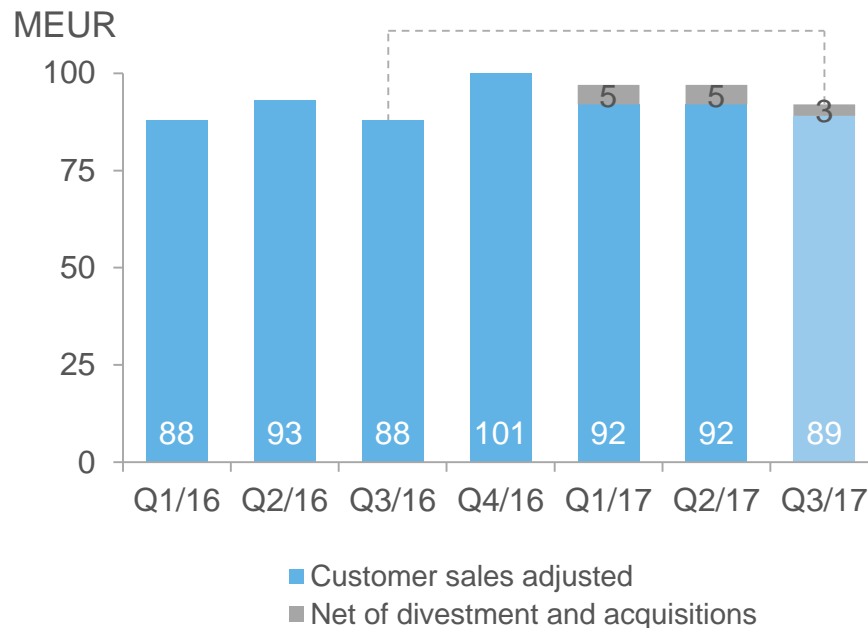
- EUR 92 (88) million, +5%, growth of 5% in local currencies
- Organic growth in local currencies 2%

Sales split by service line

	Q3/2017	Q3/2016
TSM	57%	60%
BCI	5%	4%
IS	38%	36%

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



Public, Healthcare and Welfare

Customer sales Q3

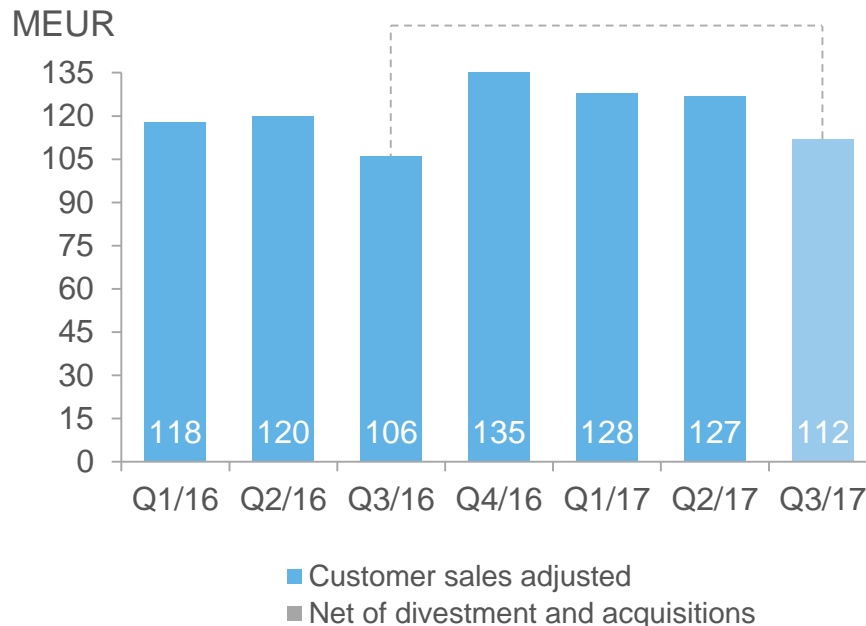
- EUR 112 (106) million, +6%, growth of 6% in local currencies

Sales split by service line

	Q3/2017	Q3/2016
TSM	48%	47%
BCI	7%	8%
IS	45%	45%

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

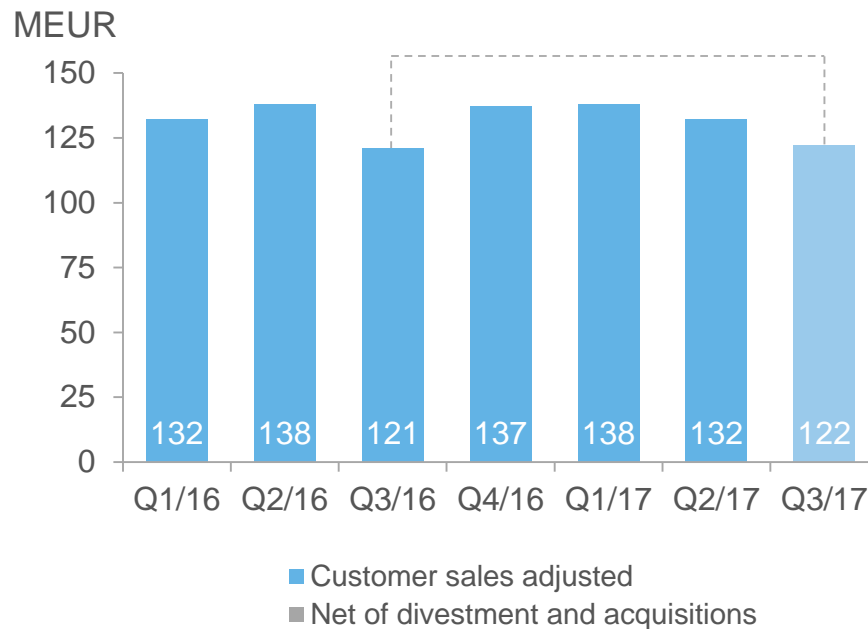
- EUR 122 (121) million, 0%, growth of 1% in local currencies

Sales split by service line

	Q3/2017	Q3/2016
TSM	60%	62%
BCI	16%	15%
IS	24%	23%

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



Outlook

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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 development **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^{*)} Q4/2016
- 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

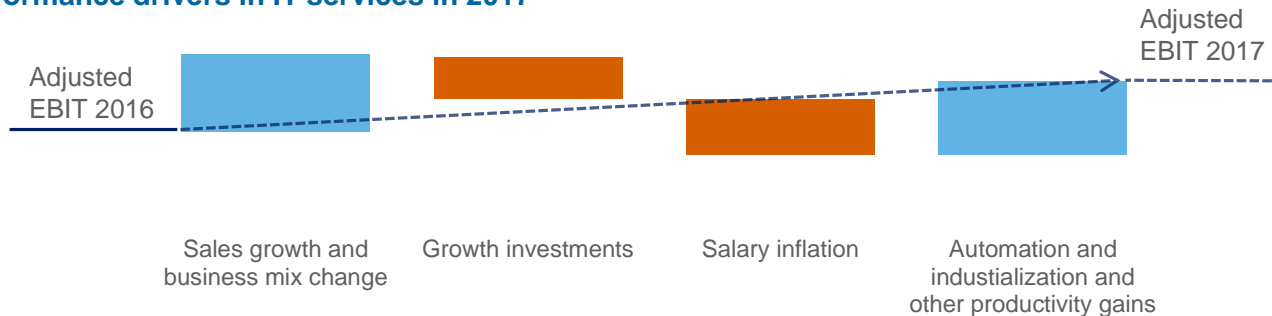
We aim to **grow** faster than the market, growth supported by acquisitions

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



^{*)} 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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- Public offer to acquire Avega announced in October – to accelerate growth in Sweden

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