Q1 2019
Good start for the year

Kimmo Alkio, President and CEO
Tomi Hyryläinen, CFO
Tanja Lounevirta, Head of IR
Q1 2019 in brief

Good start for the year

› Adjusted operating margin of 10% supported by healthy performance in Industry Solutions

› Strong growth and profitability in Product Development Services

› Growth in local currencies 2% – strong order intake

› Strategy implementation progressing as planned, including efficiency measures
The Nordic IT market remains highly dynamic

- Increasing investments for new data-rich services and differentiating experiences
- Hybrid infrastructure as a foundation in customers’ business continuity and renewal
- Uncertainty in macroeconomic trends continues
- Tieto expects the Nordic IT services market to grow by 2–3% in 2019
Q1 2019 key figures

Net sales up by 1%
› EUR 408.4 (406.3) million
› Growth in local currencies 2%
› Organic growth in local currencies 2%

EBIT margin 9.0% (9.2%)
› EBIT EUR 36.8 (37.3) million
› Adjusted¹) EBIT EUR 40.9 (37.9) million, 10.0% (9.3%)
  › EUR 2.0 million of offering development costs capitalized
  › EUR 0.9 million positive IFRS 16 impact
  › Negative currency impact of EUR 1 million

Order backlog EUR 1 717 (1 787) million
› Order backlog provides support for the 2019 growth ambition
› Book-to-bill 1.4 (0.9)

¹) adjusted for amortization of acquisition-related intangible assets, restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability
Healthy development in a number of growth businesses

<table>
<thead>
<tr>
<th>Growth in local currencies</th>
<th>Annual sales in 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Consulting and Implementation (growth 7%)</strong></td>
<td>~ EUR 60 million</td>
</tr>
<tr>
<td>› Customer Experience Management +33%</td>
<td></td>
</tr>
<tr>
<td><strong>Technology Services and Modernization (growth 0%)</strong></td>
<td>~ EUR 125 million</td>
</tr>
<tr>
<td>› Cloud services +8%</td>
<td>~ EUR 12 million</td>
</tr>
<tr>
<td>› Security services +69%</td>
<td></td>
</tr>
<tr>
<td><strong>Industry Solutions (growth 1%)</strong></td>
<td>~ EUR 180 million</td>
</tr>
<tr>
<td>› Lifecare +4%</td>
<td>~ EUR 60 million</td>
</tr>
<tr>
<td>› Payments +14%</td>
<td>~ EUR 50 million</td>
</tr>
<tr>
<td>› Hydrocarbon Management +24%</td>
<td>~ EUR 5 million</td>
</tr>
<tr>
<td>› Data-Driven Businesses +154%</td>
<td></td>
</tr>
</tbody>
</table>
Quarterly development

**Net sales**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>MEUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1/18</td>
<td>405</td>
</tr>
<tr>
<td>Q2/18</td>
<td>403</td>
</tr>
<tr>
<td>Q3/18</td>
<td>366</td>
</tr>
<tr>
<td>Q4/18</td>
<td>421</td>
</tr>
<tr>
<td>Q1/19</td>
<td>406</td>
</tr>
</tbody>
</table>

- Net of divestment and acquisitions
- Customer sales adjusted

**Number of full-time employees and offshore ratio**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Employee</th>
<th>Offshore ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1/18</td>
<td>14581</td>
<td>49.4%</td>
</tr>
<tr>
<td>Q2/18</td>
<td>14956</td>
<td>49.8%</td>
</tr>
<tr>
<td>Q3/18</td>
<td>15109</td>
<td>50.6%</td>
</tr>
<tr>
<td>Q4/18</td>
<td>15190</td>
<td>50.6%</td>
</tr>
<tr>
<td>Q1/19</td>
<td>15275</td>
<td>50.9%</td>
</tr>
</tbody>
</table>

- Number of personnel up by a net amount of 861
- Offshore ratio: IT services 48.2% (46.2%) PDS 71.5% (69.8%)

**Net debt/EBITDA**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1/18</td>
<td>0.5</td>
</tr>
<tr>
<td>Q2/18</td>
<td>1.0</td>
</tr>
<tr>
<td>Q3/18</td>
<td>1.0</td>
</tr>
<tr>
<td>Q4/18</td>
<td>0.7</td>
</tr>
<tr>
<td>Q1/19</td>
<td>1.1</td>
</tr>
</tbody>
</table>

**Net cash flow from operations and capital expenditure**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Net cash flow from operations</th>
<th>Capital expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1/18</td>
<td>61.5</td>
<td>-8.2</td>
</tr>
<tr>
<td>Q2/18</td>
<td>12.3</td>
<td>-11.4</td>
</tr>
<tr>
<td>Q3/18</td>
<td>18.7</td>
<td>-8.7</td>
</tr>
<tr>
<td>Q4/18</td>
<td>81.7</td>
<td>-16.7</td>
</tr>
<tr>
<td>Q1/19</td>
<td>43.3</td>
<td>-9.4</td>
</tr>
</tbody>
</table>
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

1. New data-driven businesses
2. Financial Services
3. Public, Healthcare and Welfare
4. Industrial and Consumer Services

Industry Solutions

Business Consulting and Implementation
Technology Services and Modernization
Product Development Services

*) Reported in Industry Solutions
Technology Services and Modernization

Customer sales in Q1
› EUR 187 (189) million, -1%, or in local currencies at Q1/2018 level

EBIT
› Adjusted\(^1\) EBIT EUR 19.5 (20.8) million, 10.4% (11.0)

Q1 highlights
› Annual price discounts and a delay in one large delivery affect growth
› Infrastructure cloud +8%, application services +3% and Security Services +69%
› Traditional infrastructure services down by 6%
› EBIT margin somewhat down – Q1/2018 supported by the efficiency programme 2017
› Q2 adjusted EBIT margin anticipated to be below Q2/2018 level as the savings from the simplified structure will affect only as from H2/2019

\(^1\) adjusted for amortization of acquisition-related intangible assets, restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability
Customer sales Q1
› EUR 65 (62) million, +5%, or +7% in local currencies
› Organic growth in local currencies +4%)

EBIT
› Adjusted\(^1\) EBIT EUR 6.8 (5.8) million, 10.4% (9.4)

Q1 highlights
› Growth supported by the acquisition of Meridium
› CEM +33%
› Adjusted operating profit improved, mainly due to good volume development
› Q2 affected by the number of working days – adjusted EBIT margin anticipated to be close to Q2/2018 level

\(^1\) adjusted for amortization of acquisition-related intangible assets, restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability
Industry Solutions

Customer sales Q1
› EUR 119 (121) million, -1%, or +1% in local currencies
› Organic growth in local currencies 2%

EBIT
› Adjusted\(^1\) EBIT EUR 13.3 (9.9) million, 11.1% (8.2)

Q1 highlights
› Strong growth in Hydrocarbon Management, Payments solutions and Lifecare
› Architectural renewal continued to affect SmartUtilities
› EUR 2.0 million related to platform development capitalized
› Q2 adjusted EBIT margin expected to improve from Q2/2018 level

\(^1\) adjusted for amortization of acquisition-related intangible assets, restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability
Product Development Services

Customer sales Q1
› EUR 37 (34) million, +8%, or +12% in local currencies

EBIT
› Adjusted\(^1\) EBIT EUR 4.5 (4.3) million, 12.3% (12.7)

Q1 highlights
› Strong volume development with the largest key customers and good development in automotive
› EBIT margin remained at a strong level of over 12%
› Q2 adjusted EBIT margin anticipated to be below or at Q2/2018 level as recruitments to drive growth contribute to performance towards H2/2019.

\(^1\) adjusted for amortization of acquisition-related intangible assets, restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability
Industry Groups

New data-driven businesses *)

Industry Solutions

Business Consulting & Implementation

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 Q1
› EUR 91 (96) million, -5%, or -3% in local currencies

Sales split by service line

<table>
<thead>
<tr>
<th></th>
<th>Q1/2019</th>
<th>Q1/2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSM</td>
<td>56%</td>
<td>56%</td>
</tr>
<tr>
<td>BCI</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>IS</td>
<td>35%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Q1 highlights
› Sales affected by volume and price development in infrastructure services
› Positive development in Industry Solutions with strong growth in the Payments area
› New agreements include Folksam and Getswish

![Sales Chart]

- Customer sales adjusted
- Net of divestment and acquisitions
Public, Healthcare and Welfare

Customer sales Q1
› EUR 139 (133) million, +5%, or +7% in local currencies

Sales split by service line

<table>
<thead>
<tr>
<th></th>
<th>Q1/2019</th>
<th>Q1/2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSM</td>
<td>44%</td>
<td>45%</td>
</tr>
<tr>
<td>BCI</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>IS</td>
<td>42%</td>
<td>43%</td>
</tr>
</tbody>
</table>

Q1 highlights
› Healthy development across the markets and businesses
› The Finnish public sector the strongest segment
› Positive outlook in the healthcare and welfare market while the preparations for the large-scale reform in Finland discontinued
› New agreements include Sweden’s Health and Social Care Inspectorate (IVO) and City of Stockholm
Industrial and Consumer Services

**Customer sales Q1**
- EUR 141 (143) million, -1%, or in local currencies at Q1/2018 level

**Sales split by service line**

<table>
<thead>
<tr>
<th></th>
<th>Q1/2019</th>
<th>Q1/2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSM</td>
<td>53%</td>
<td>53%</td>
</tr>
<tr>
<td>BCI</td>
<td>26%</td>
<td>26%</td>
</tr>
<tr>
<td>IS</td>
<td>21%</td>
<td>21%</td>
</tr>
</tbody>
</table>

**Q1 highlights**
- Healthy growth especially in Hydrocarbon Management and Production Excellence
- Negative sales development in SmartUtilities
- New agreements include Ahlström-Munksjö

![Bar chart showing customer sales adjusted net of divestment and acquisitions from Q1/2018 to Q1/2019](chart.png)
Performance drivers in 2019

› **Growth** above the market

› **Offering development** costs around 5% of Group sales

› **Productivity improvement** measures, incl. automation, optimized subcontracting, offshoring, management of competence pyramid

› **Salary inflation** over EUR 30 million

› Operational simplification anticipated to result in annualized **gross savings of EUR 30–35 million**
  › Close to half anticipated to affect the 2019 performance, contributing to **profitability as from H2/2019**
  › **Restructuring costs** anticipated to amount to EUR 20–25 million, of which main part will be booked in Q2/2019
Guidance for 2019 unchanged

Tieto expects its full-year adjusted\(^1\) operating profit (EBIT) to increase from the previous year’s level (EUR 168.0 million in 2018) added by the impact of IFRS 16 \(^2\) to maintain the comparability after the adoption of the new standard.

\(^1\) adjusted for amortization of acquisition-related intangible assets, restructuring costs, capital gains/losses, goodwill impairment charges and other items affecting comparability

\(^2\) The company estimates that the adoption of IFRS 16 will have a positive impact on operating profit in 2019. In the first quarter, the impact was EUR 0.9 million. Comparative periods are not restated. More information on the adoption of the standard can be found in the Accounting Policies in the tables section.
Q1 2019 in brief

Good start for the year

› Adjusted operating margin of 10% supported by healthy performance in Industry Solutions
› Strong growth and profitability in Product Development Services
› Growth in local currencies 2% – strong order intake
› Strategy implementation progressing as planned, including efficiency measures
Market opportunity and strategy 2019
Digital experience and data driving customers’ competitiveness

To be addressed by customers

- Digital transformation accelerating
- Agile development sprints a new norm
- Faster time to market
- Business continuity and cost optimization

How we can help

- Adapt enterprise architecture
- Renew applications
- Data and insights
- Design and experience

New business outcomes for customers

- Predictive healthcare
- Digital citizen services
- Digital platforms
- Connected consumer products
- Connected vehicles

Hybrid Infrastructure

21
Services driving competitiveness

Digital Experience
- eCommerce and customer experience
- Data science and platforms
- Cloud-native applications

Hybrid Infra
- Hybrid cloud (private and public)
- 24/7 services and datacenters
- End-user services

Industry Software
- Industry-specific software/solutions
- Customers’ business critical processes and functions

Product Development Services
- Telecom
- Automotive
- Consumer electronics
Business potential and value drivers

- Build scale for Design, Analytics and Cloud integration
- Increase customer impact by combining capabilities from Design, Data and Application Modernization

- Build multicloud platforms to enable unified service experience
- Accelerate automation and machine-led delivery models

- Unified practices, scalability and synergies across software businesses
- Expand functionality and business models for further differentiation

- Continue expanding global customer base
- Extend value proposition to adjacent industries
Strategy summary

Digital Experience as the main growth driver
– all businesses expected to grow above market
✓ Investments in digital capabilities – addition of 2 500–3 000 people during the strategy period 2019–2022
✓ Scalable Industry Software continues to drive global expansion

Significant operational simplification
✓ Organizational simplification
✓ Overlapping roles of administrative nature cease to exist
✓ Potentially impacting 700 roles globally, annualized savings of EUR 30–35 million

Upgraded financial ambition
✓ Growth of over 5%
✓ Adjusted operating margin 13%
✓ Attractive dividend policy maintained

Implementation of the new strategy started
✓ New Leadership Network effective as of 1 April
✓ Country based Go-to-Market effective during Q2/2019
✓ Personnel negotiations initiated in April
✓ New reporting structure as of Q2/2019
Creating great everyday experiences  
Making customers more competitive