

Tieto Q1 2017

Strong growth contributing to good performance

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tieto

Q1 2017 in brief

Strong growth contributing to good performance

- Sales growth of 7% – all businesses performing well
- Good profitability and strong cash flow
- Next phase of the automation and efficiency improvement programme started

Outlook in the Nordic IT market remains solid

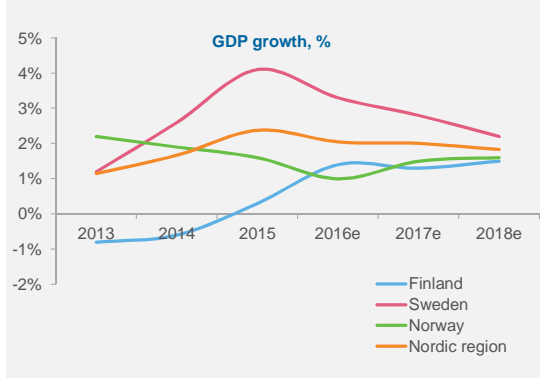
Somewhat upgraded economic forecasts for Finland

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

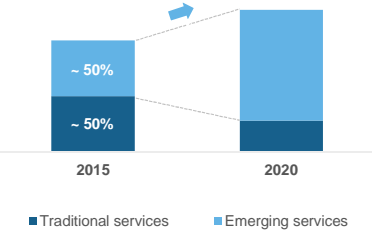
- IT services market strongest in Sweden
- Market change driven by investments in digitalization and efficiency improvement
- Emerging services expected to experience double-digit growth – decline in traditional services will continue



Source: Nordea Markets, Economic Outlook, 2/2017

Business mix shifting towards high-growth services

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

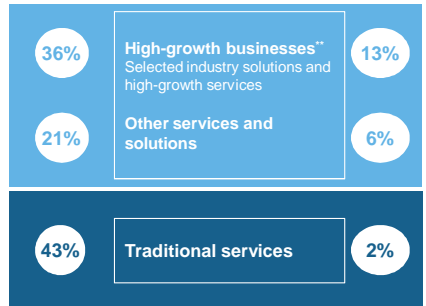


**SALES GROWTH
2016–2020 (CAGR)**

UP BY
10–20%

DOWN BY
5–10%

**SHARE OF IT SERVICES
Q1/2017**



**GROWTH
Q1/2017**

13%

6%

2%

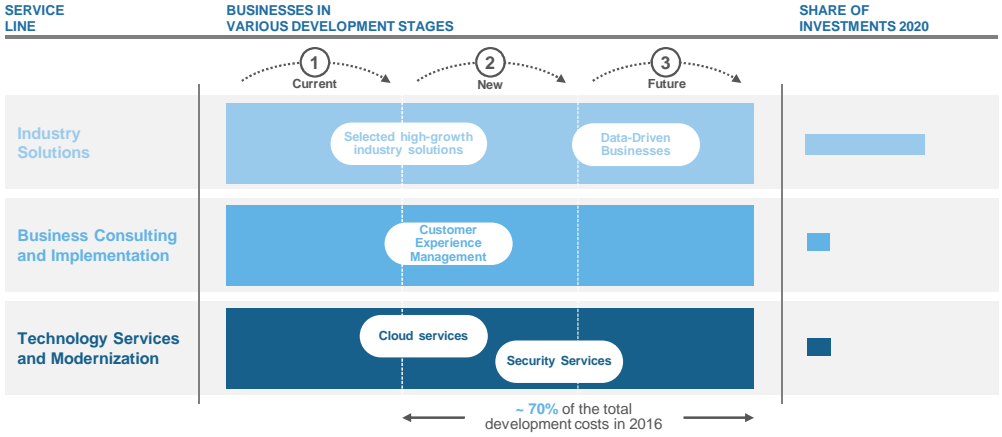
*Market growth expectation (CAGR) for the Nordics at 1.5–3%

IT services annual sales EUR 1 376 million in 2016

**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

We drive growth through investments in selected areas

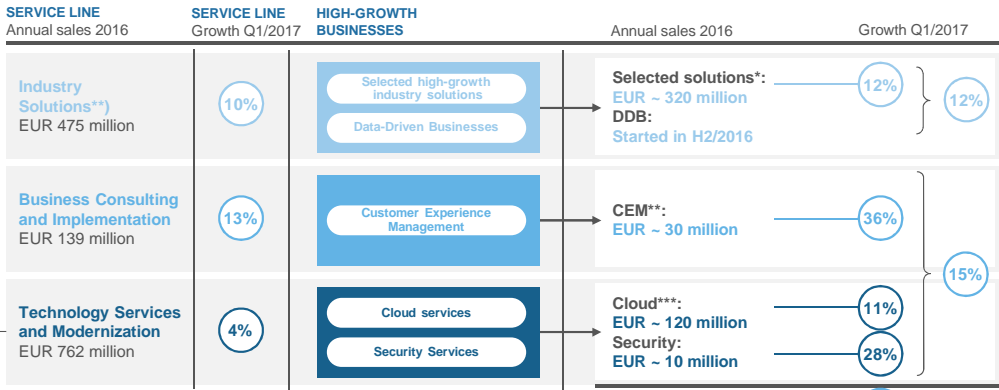
Annual investments in growth businesses ~ 75 mEUR



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



High-growth businesses up by 13% in Q1



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 – growth comparable to Q1/2016
 *** Cloud services include Value Networks (solution for the management of financial value chain) transferred to TSM as from 1 July – growth comparable to Q1/2016

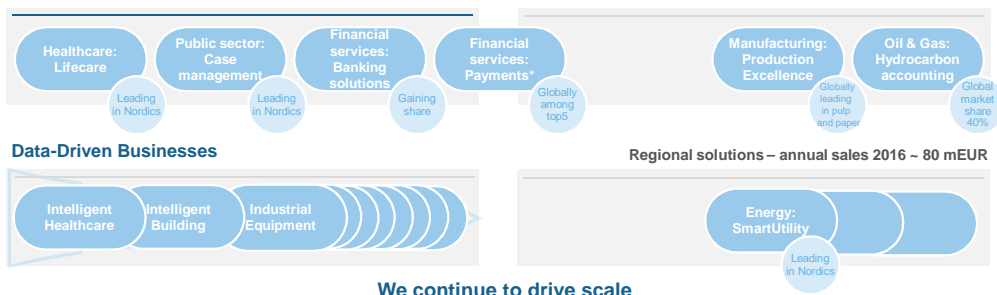


Industry Solutions in our investment focus

Selected high-growth solutions represent 2/3 of Industry Solutions' sales

Selected high-growth industry solutions – annual sales 2016 ~ 320 mEUR

Global footprint
– annual sales 2016 ~ 75 mEUR



We continue to drive scale

- Partner networks in innovation and sales
- Well-targeted offering development
- Global expansion of selected solutions
- Selective bolt-on acquisitions

* Payments' sales included in 320 mEUR

Q1 2017 key figures

Net sales

- EUR 393 (367) million, +7.0%, growth in local currencies +6.9%
 - Acquisitions added EUR 5.1 million
 - Currency impact EUR 0.4 million
- In IT services, sales growth 6.8%, or 6.5% in local currencies
 - Organic growth in local currencies 5.0%

EBIT

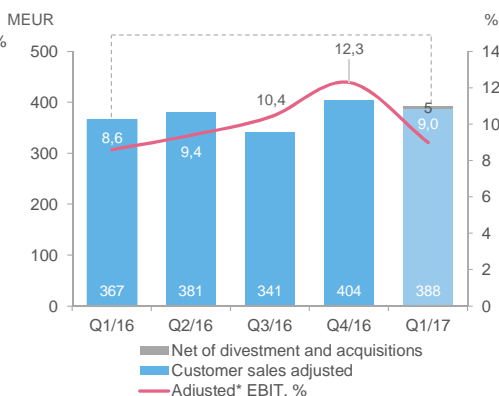
- EBIT EUR 21.9 (28.3) million, 5.6% (7.7%)
- Adjusted* EBIT EUR 35.4 (31.5) million, 9.0% (8.6%)

Order backlog

- Order backlog EUR 1 864 (1 907) million
- Contract Value EUR 389 (325) million
- Book-to-bill 1.0 (0.9)

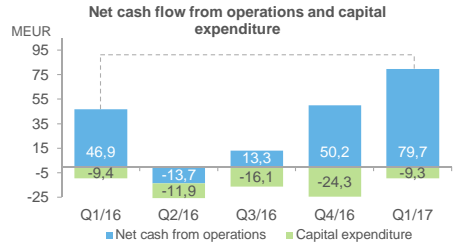
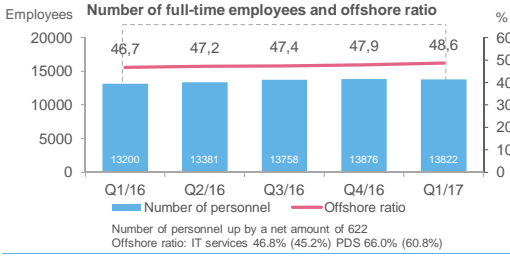
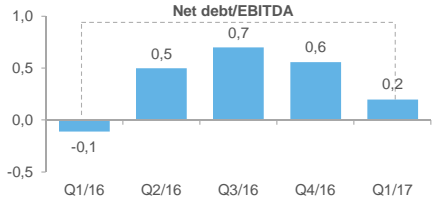
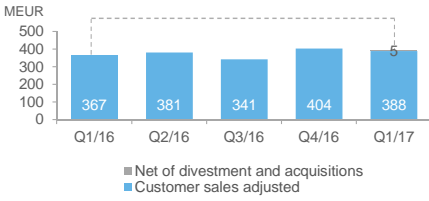
Earnings per share

- EPS EUR 0.21 (0.29)
- EPS EUR 0.36 (0.33), adjusted^{*)}

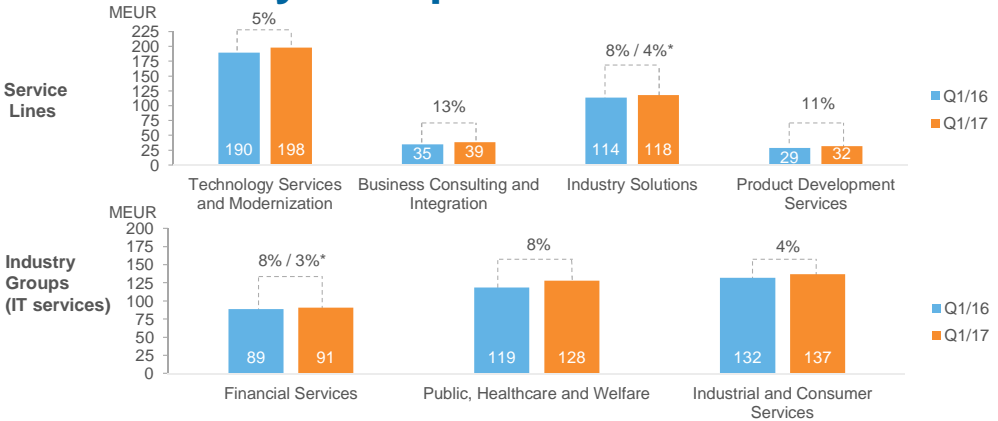


^{*)} adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items

Quarterly development – strong cash flow

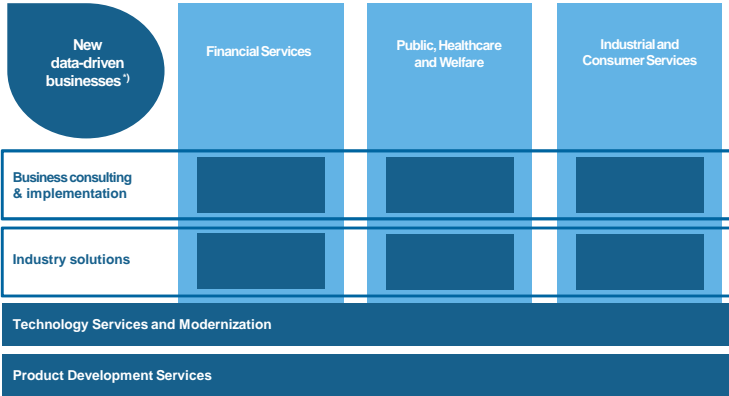


Growth in local currencies by Service Line and Industry Group



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

Service Lines



Technology Services and Modernization

Customer sales in Q1

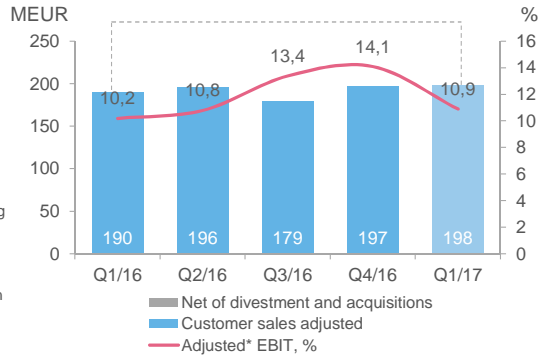
- EUR 198 (190) million, +4%, growth of 5% in local currencies

EBIT

- EBIT EUR 14.5 (17.7) million, 7.3% (9.4)
- Adjusted* EBIT EUR 21.5 (19.4) million, 10.9% (10.2)

Q1 highlights

- Strong volume development in existing agreements and new contracts
 - Cloud sales^{**) up by 11% - OneCloud launch proceeding}
 - Traditional services slightly up, partly due to the impact of increased number on working days visible in AM
- Service standardization and automation initiatives continue
 - Measures to contribute to margin during 2017, mainly in H2/2017 – no impact in Q1 yet
- Q2 adjusted margin expected to be at the level of Q2/2016



^{**) Value Networks (our solution for the management of financial value chain) transferred to TSM as from 1 July, is included in sales for cloud services.}

^{*) adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items}

Business Consulting & Implementation

Customer sales Q1

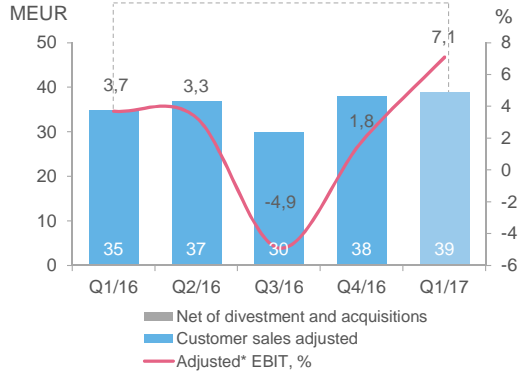
- EUR 39 (35) million, +13%, growth of 13% in local currencies

EBIT

- EBIT EUR 2.2 (1.1) million, 5.7% (3.2)
- Adjusted* EBIT EUR 2.8 (1.3) million, 7.1% (3.7)

Q1 highlights

- Healthy growth in consulting services across all industry groups
- Customer Experience Management sales up by 36%
- The higher number of working days contributed to growth
- Profitability improvement due to sales growth and improved utilization rates – also somewhat lower level of offering development costs
- Adjusted margin expected to remain at improved levels also in Q2/2017



Industry Solutions

Customer sales Q1

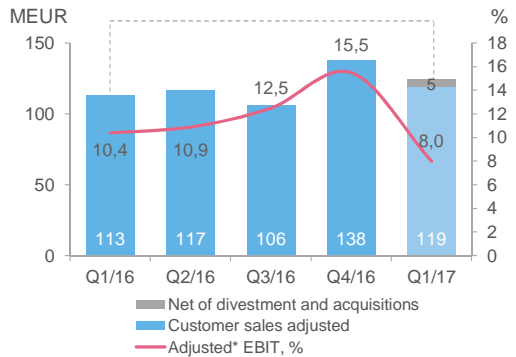
- EUR 125 (113) million, +10%, growth of 8% in local currencies
- Organic growth in local currencies 4%

EBIT

- EBIT EUR 6.3 (11.5) million, 5.0% (10.1)
- Adjusted* EBIT EUR 9.9 (11.7) million, 8.0% (10.4)

Q1 highlights

- FS growth supported by the acquisition of Emric, Lifecare up by 7%
- Organically, growth strongest in the Public, Healthcare and Welfare, up by 8%
- Offering development costs up by EUR 4 million, including data-driven businesses – excluding the increase in costs, margin above Q1/2016
- Q2 adjusted margin anticipated to remain at or above the level of Q2/2016



Product Development Services

Customer sales Q1

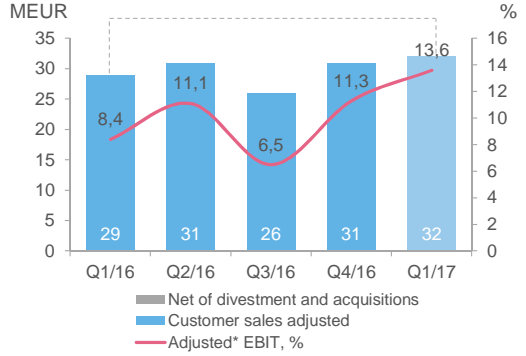
- EUR 32 (29) million, 10%, growth of 11% in local currencies

EBIT

- EBIT EUR 4.2 (2.6) million, 13.1% (9.0)
- Adjusted* EBIT EUR 4.3 (2.4) million, 13.6% (8.4)

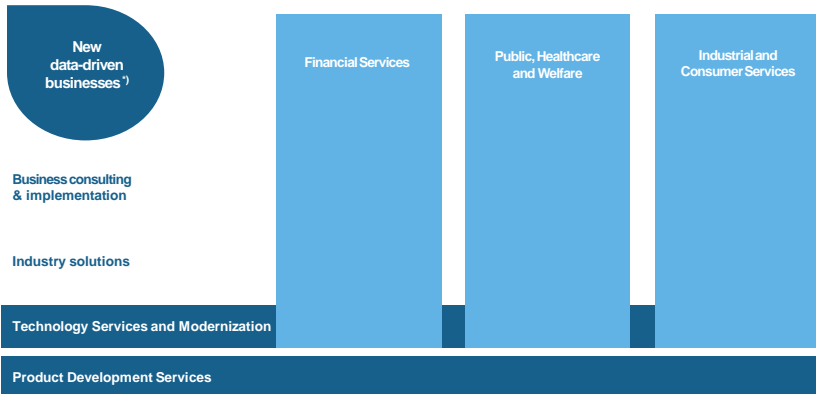
Q1 highlights

- Strong volume development with the largest key customers
- Development remained strong in the Radio area
 - Resources in offshore locations increased to meet demand
- The higher number of working days contributed to growth and profitability
- Q1 operating margin improved clearly due to improved utilization rate and efficient, lean operations
- Q2 adjusted margin anticipated to be close to normalized levels



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

Industry Groups



Financial Services

Customer sales Q1

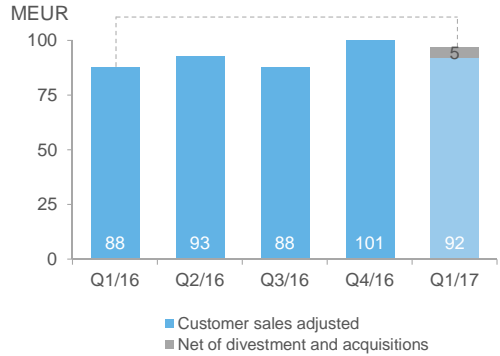
- EUR 96 (88) million, +9%, growth of 8% in local currencies
- Organic growth in local currencies 3%

Sales split by service line

	Q1/2017	Q1/2016
TSM	57%	60%
BCI	5%	4%
IS	38%	36%

Q1 highlights

- Acquisition of Emric support growth
- Growth driven by new projects driving IT efficiency and digital services, especially in Finland
- Organic growth driven by new projects driving IT efficiency and digital services, especially in Finland
- Good new wins in Industry Solutions e.g. Payments
- New agreements include Folksam



Public, Healthcare and Welfare

Customer sales Q1

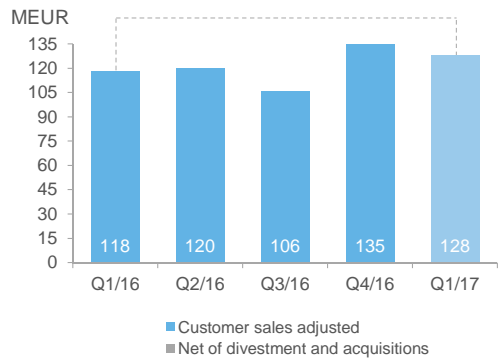
- EUR 128 (118) million, +8%, growth of 8% in local currencies

Sales split by service line

	Q1/2017	Q1/2016
TSM	47%	45%
BCI	8%	9%
IS	45%	46%

Q1 highlights

- Healthy growth across all service lines
- Finland the strongest market
 - active market with several digitalization initiatives and transition projects in infrastructure services
- Reforms in the social and welfare sector across the Nordic countries provide growth opportunities
- Agreements with DGI (collaboration group of Norwegian municipalities), Finnish Prime Minister's Office, Municipality of Järfälla, Region Blekinge



Industrial and Consumer Services

Customer sales Q1

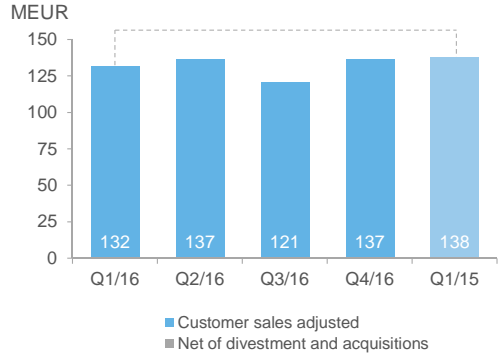
- EUR 138 (132) million, +5%, growth of 4% in local currencies
- Organic growth in local currencies 4%

Sales split by service line

	Q1/2017	Q1/2016
TSM	60%	63%
BCI	17%	16%
IS	23%	21%

Q1 highlights

- Healthy growth driven by new agreements won during 2016 and positive volume development in existing agreements
- Positive development both in Energy and Telecom
- New agreements with AF, Outokumpu, HSB and Apoteket



Outlook

Performance drivers in 2017

IT services

> Q1

Growth accelerated by the Easter effect

Efficiency programme not yet visible in Q1

Offering development costs up by EUR 2 million – some carry over for recruitments in the past 12 months

> Q2

Negative Easter effect

Efficiency programme affecting cost base **mainly in H2/2017**

High level of investments **maintained** – some carry over for recruitments in the past 12 months

> Full year

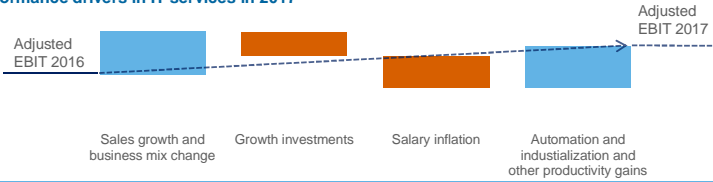
We aim to **grow** faster than the market, growth supported by acquisitions

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

Offering development costs remain at the 2016 level and close to 5% of Group sales

Restructuring costs 1–2% of Group sales

Performance drivers in IT services in 2017



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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- Next phase of the automation and efficiency improvement programme started