# Q2 2018

## Strong growth – profit at the previous year's level


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# Q2 2018 in brief

## Strong growth – profit at the previous year's level

- Growth in local currencies 8%, organically 5%
- Profitability development good in Technology Services and Modernization, Business Consulting and Product Development Services
- Higher investments in technology renewals in Industry Solutions impact second-quarter profit
- Currency impact remains negative

# The Nordic IT market continues to provide with growth opportunities

- Solid economic outlook continues to support IT market
- Good demand for software-based solutions, consulting and IT outsourcing
- Current currency trend unfavorable for Tieto
- Tieto expects the Nordic IT services market to grow by ~2% in 2018

# Q2 2018 key figures

**Net sales up by 4.8%**

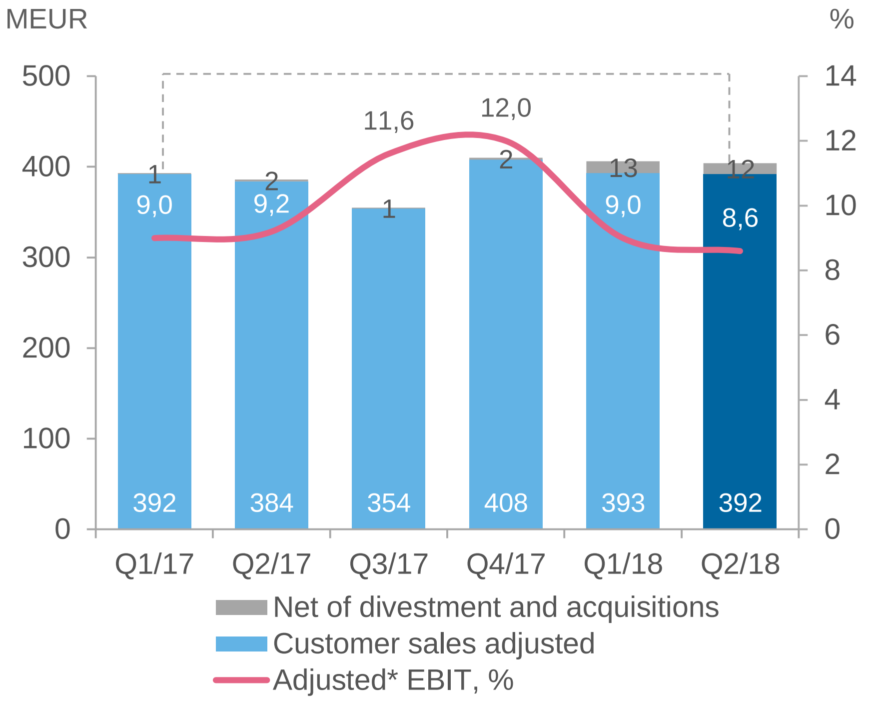
- EUR 404.1 (385.6) million
- Growth in local currencies 8%
- Organic growth in local currencies 5%

**EBIT margin 7.7% (7.3%)**

- EBIT EUR 31.3 (28.1) million
- Adjusted* EBIT EUR 34.8 (35.5) million, 8.6% (9.2%)

**Order backlog EUR 1 731 (1 817) million**

- Negative currency impact
- Order backlog for 2018 provides support for the growth ambitions for the year




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

# Steady progress towards strategic ambition

## Significant technology renewal in many industry solutions

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**Customers' 1st choice for business renewal**

- IT services revenue growth above the market (CAGR)
- 10% reported operating profit (EBIT)
- Aim to increase dividends annually in absolute terms
- Net debt/EBITDA 1.5 as an upper limit in the long run

**Q2 dynamics**

**Attractive market** with high demand for digital consulting capabilities and software driven solutions

**Strong growth in consulting based** businesses BCI, application services and PDS

**Solid** continuous services performance and **cloud growth**

**Industry solutions' renewal** continues in line with strategic ambition – short-term profit impact

- We believe in investing in Industry Solutions software businesses – strategic choice and strong vertical insights
- Architectural renewal programmes in Lifecare, SmartUtilities, Production Excellence and Payments solution
- Increased workload, mainly in Lifecare and SmartUtilities, impacted Industry Solutions' growth and profitability during H1/2018
- Key launches expected to contribute to improved performance towards the year end



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# Business mix change driven by growth businesses and application services*

## WE AIM TO GROW FASTER THAN THE MARKET*


*IT market growth expectation (CAGR 2015–2020) for the Nordics at 1.5–3%

| SHARE OF IT SERVICES YTD 2018 | | GROWTH YTD 2018 |
|---|---|---|
| 40% | Growth businesses** | 8% |
| 18% | Other services and solutions*** | 24% |
| 42% | Traditional services | -1% |

* Application services growth in local currencies 8%, incl. in traditional services
** Growth solution portfolio described on the next slide
***Including Avega

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# Investments supporting continuous renewal and growth

## Up by 8% in local currencies in H1/2018

Customer Experience Management +11%

Data-Driven Businesses +110%

Cloud services +21%

Security services -6%

## Selected industry solutions +4%

Lifecare

Payments

Credit solutions

Case management

Production excellence

SmartUtilities

Hydrocarbon management

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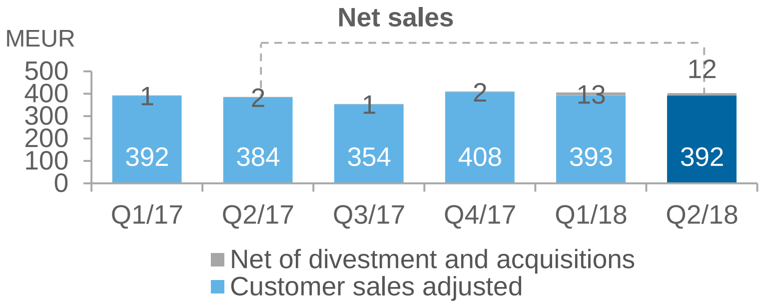
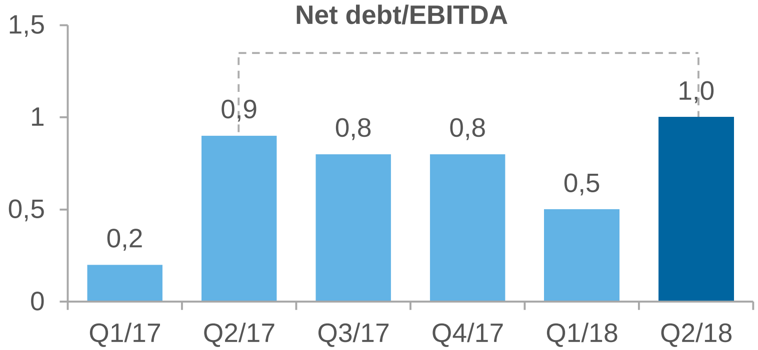
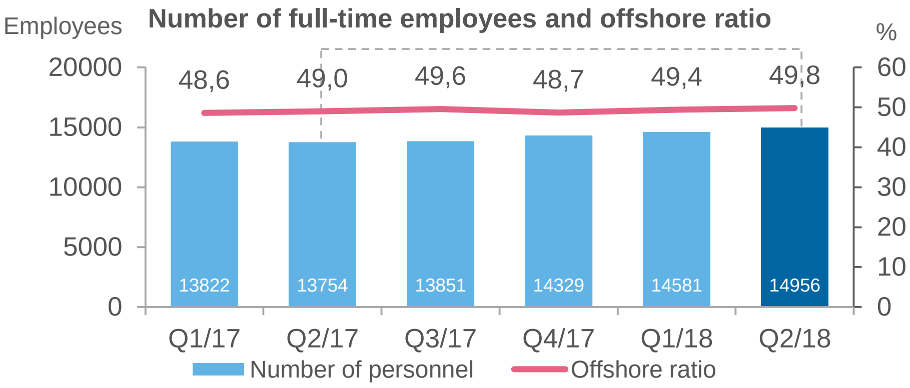
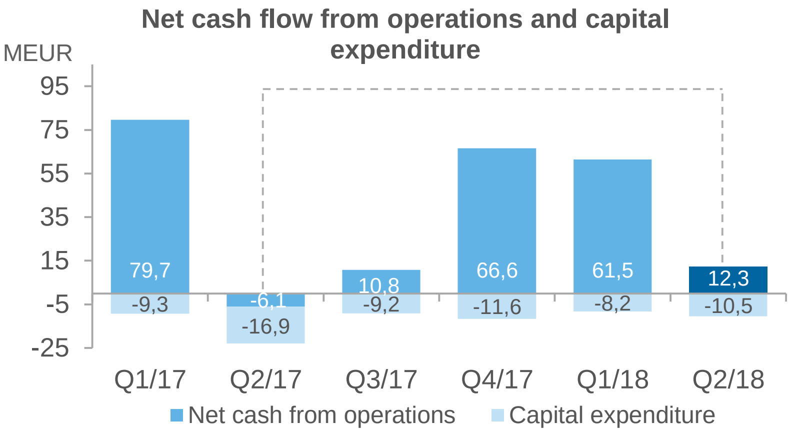
# Quarterly development



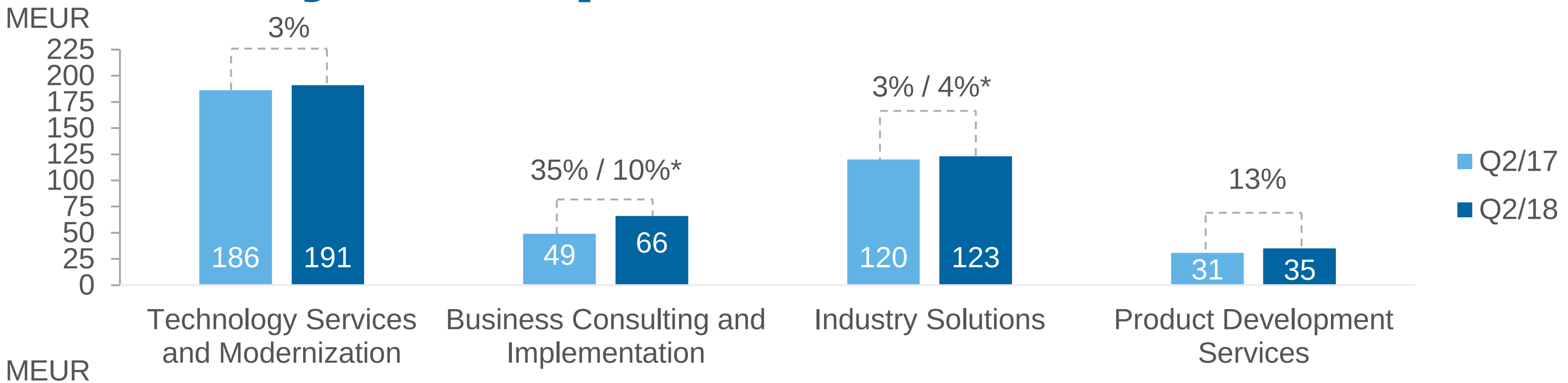




Number of personnel up by a net amount of 1202
Offshore ratio: IT services 47.3% (46.9%) PDS 71.5% (67.2%)

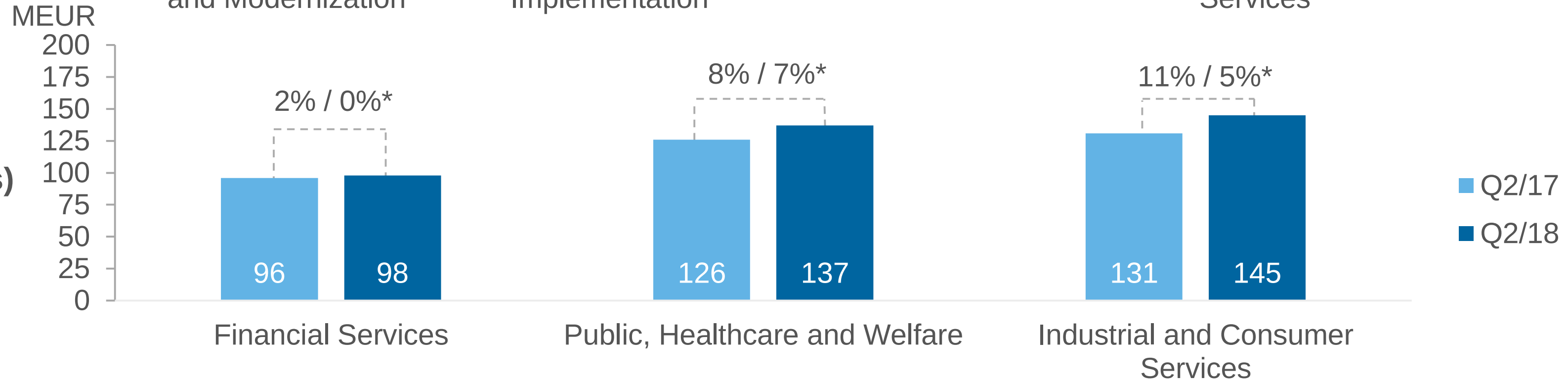


# Growth in local currencies by Service Line and Industry Group

**Service Lines**

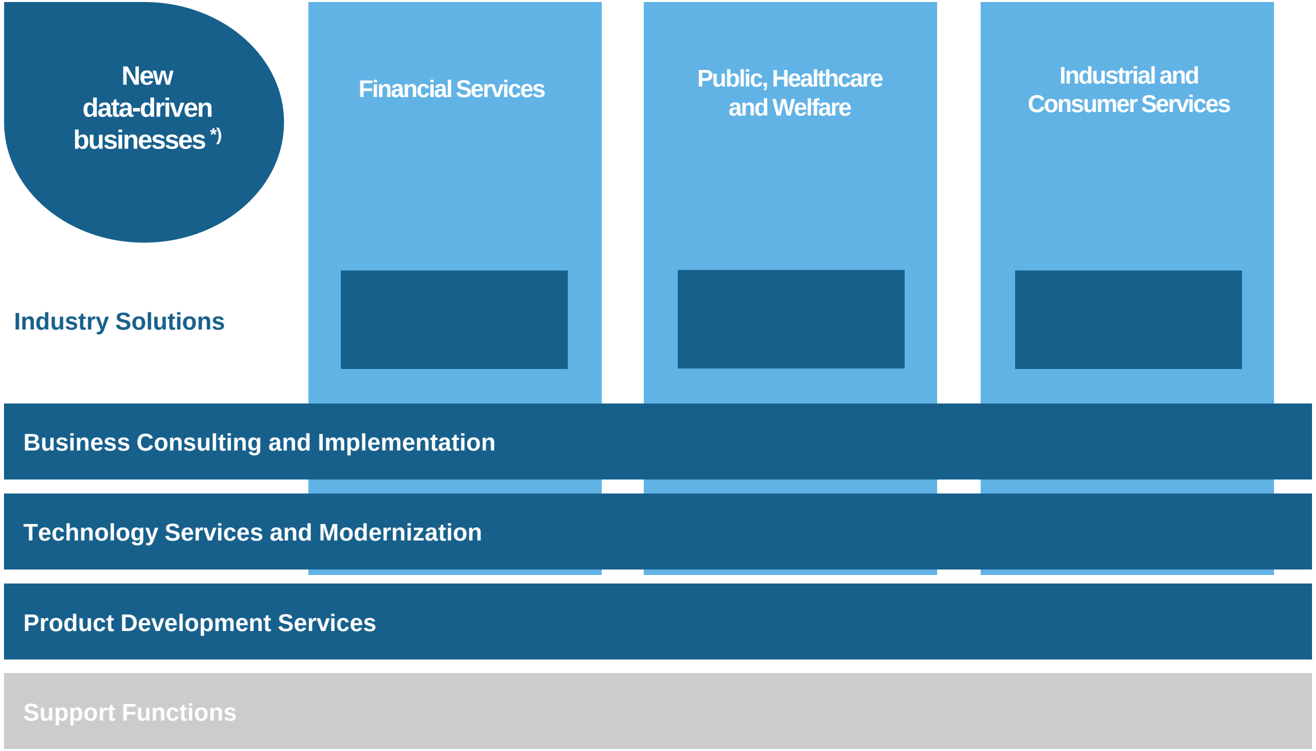



**Industry Groups (IT services)**




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

# Service Lines



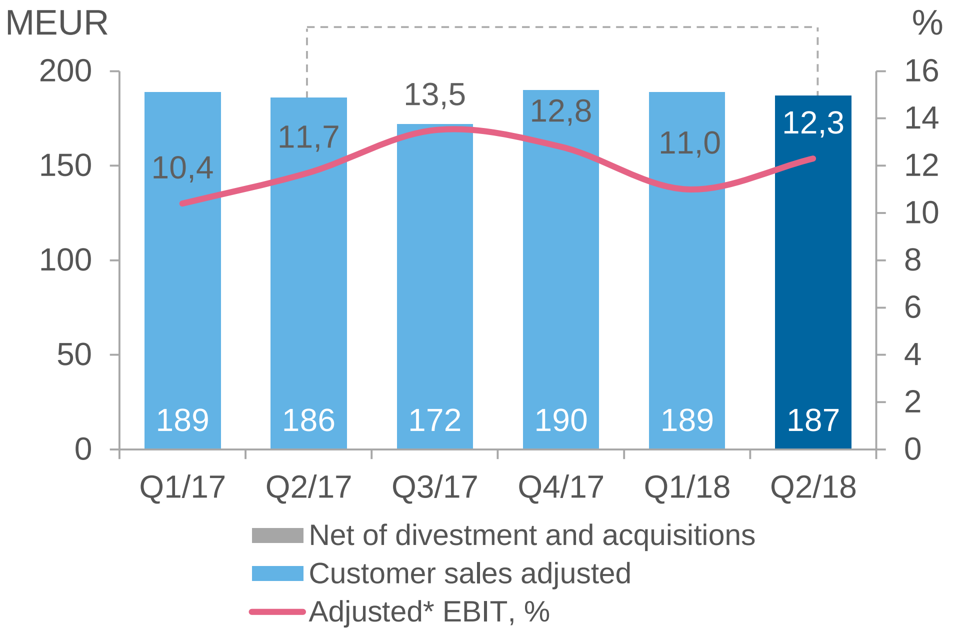

*) Reported in Industry Solutions

# Technology Services and Modernization

**Customer sales in Q2**
- EUR 187 (186) million, +1%, or +3% in local currencies

**EBIT**
- Adjusted* EBIT EUR 22.9 (21.6) million, 12.3% (11.7)

**Q2 highlights**
- Growth (in local currencies) driven by infrastructure cloud and application services – in H1 up by 21% and 8%, respectively
- Decline in traditional infrastructure services continued, down by 5% in H1/2018
- Continued service standardization contributed to EBIT improvement
- Less impact from efficiency programme in Q3 – profitability anticipated to be below or at the Q3/2017 level



2017 comparison figures are based on business transfers completed during Q2 2018

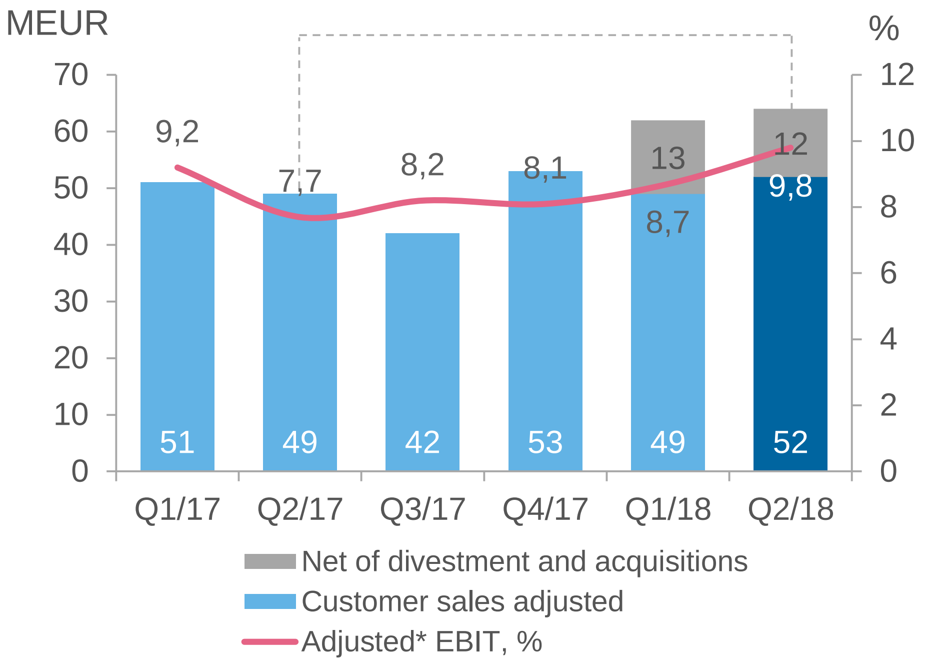
*) adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items

# Business Consulting and Implementation

**Customer sales Q2**
- EUR 64 (49) million, +31%, or +35% in local currencies
- Organic growth in local currencies +10%

**EBIT**
- Adjusted* EBIT EUR 6.3 (3.8) million, 9.8% (7.7)

**Q2 highlights**
- Organic growth driven by CEM and EA – total growth supported by the acquisition of Avega
- Profitability improvement driven by good volume development
- Q3 margin seasonally lower – expected to be around Q3/2017 level



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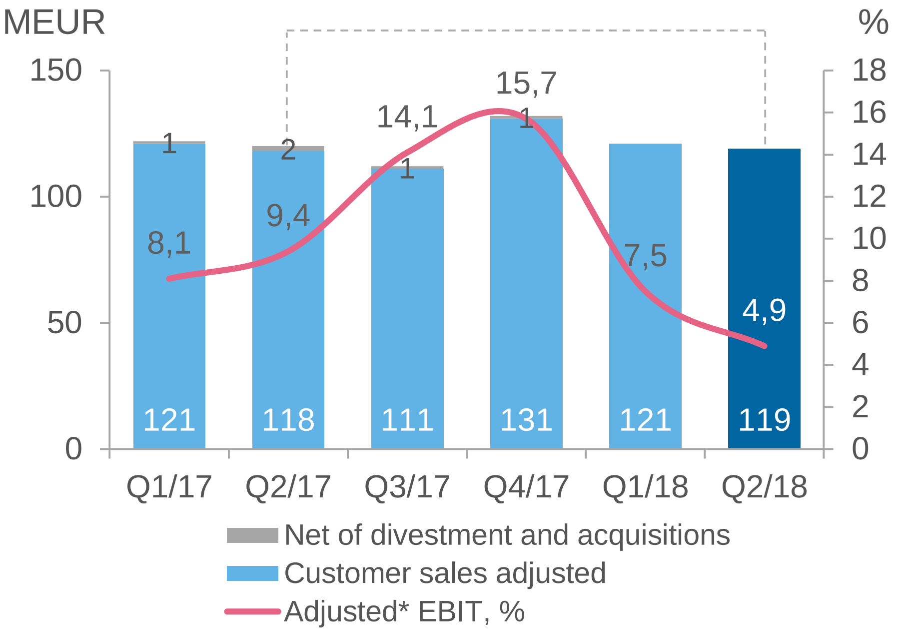
# Industry Solutions

**Customer sales Q2**
- EUR 119 (120) million, at Q2/2017 level, or +3% in local currencies
- Organic growth in local currencies 4%

**EBIT**
- Adjusted* EBIT EUR 5.9 (11.2) million, 4.9% (9.4)

**Q2 highlights**
- Good growth in SmartUtilities, Hydrocarbon Management and Case Management – Lifecare growth in line with the market
- Sales of Payments at the Q2/2017 level – expansion of customer base, including a major win with a large Nordic bank for the recently launched renewed VAM
- EBIT affected by continued technology renewal
  - Offering development costs up by 3 mEUR
  - Subcontracting costs up by 1 mEUR
- Negative currency impact on profit EUR 1 mEUR
- Q3 profitability expected to improve from the first-half level but remain below or at the Q3/2017 level







2017 comparison figures are based on business transfers completed during Q2 2018

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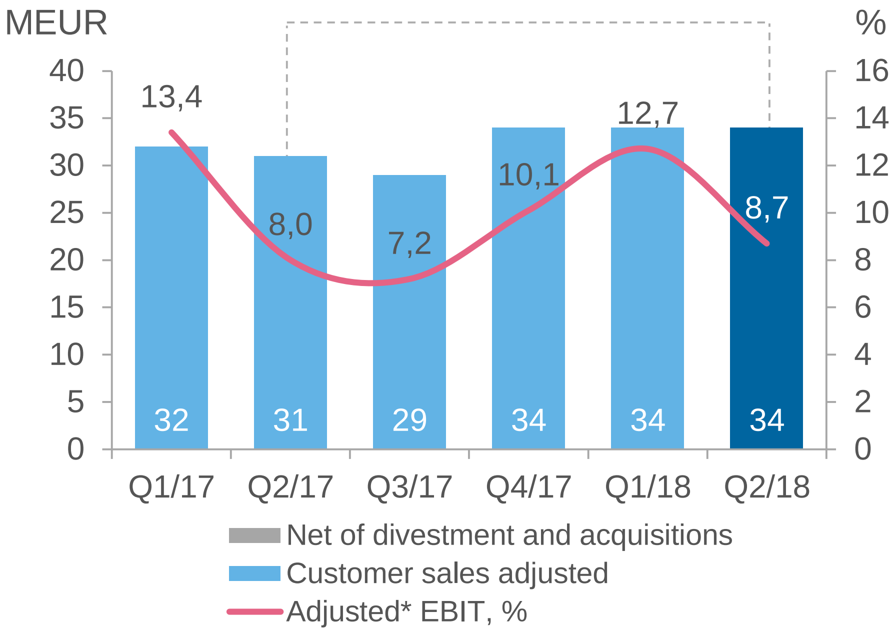
# Product Development Services

**Customer sales Q2**
- EUR 34 (31) million, +8%, or +13% in local currencies

**EBIT**
- Adjusted* EBIT EUR 2.9 (2.5) million, 8.7% (8.0)

**Q2 highlights**
- Strong volume development with the largest key customers and good development in automotive
- EBIT margin somewhat improved while included non-recurring income
- Q3 seasonally lower and profitability anticipated to be at the Q3/2017 level



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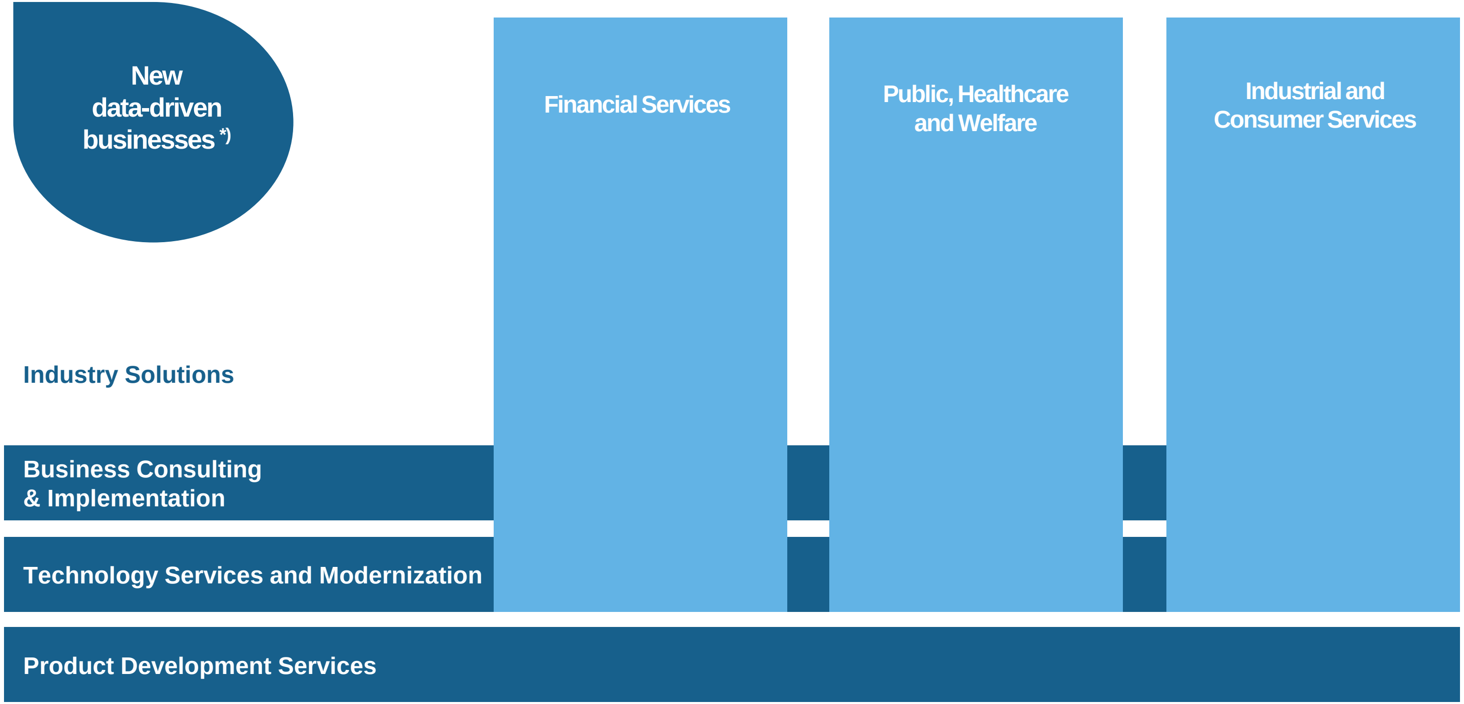
# Industry Groups




  *) Reported in Industry Solutions

# Financial Services

**Customer sales Q2**

› EUR 95 (96) million, -1%, or +2% in local currencies

**Sales split by service line**

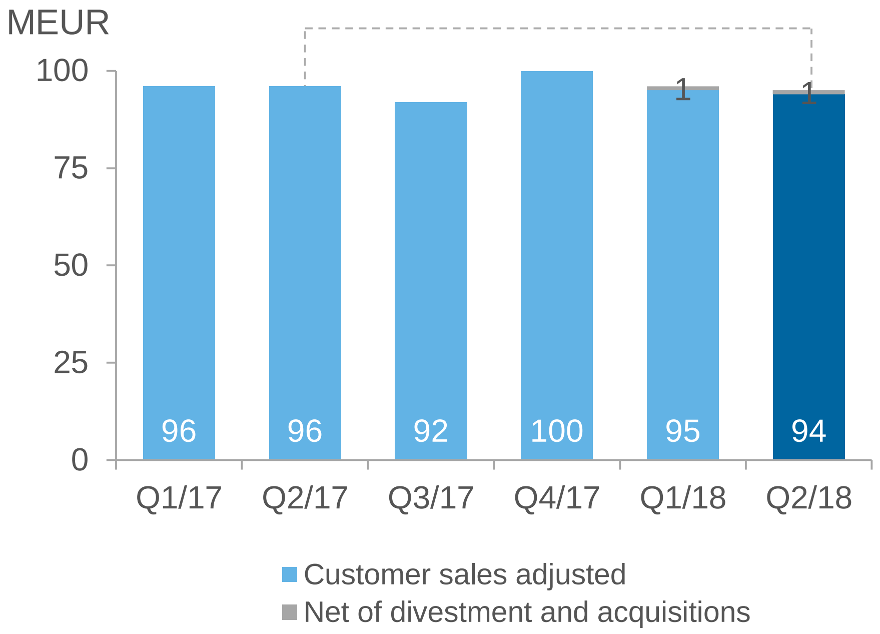
| | Q2/2018 | Q2/2017 |
|---|---|---|
| TSM | 56% | 57% |
| BCI | 11% | 10% |
| IS | 33% | 33% |

**Q2 highlights**

› In Payments, continued expansion of customer base, including a major win with a large Nordic bank for the recently launched renewed VAM

› Strong interest in Tieto's instant payments solutions

› Good activity level in the Swedish outsourcing market



# Public, Healthcare and Welfare

**Customer sales Q2**

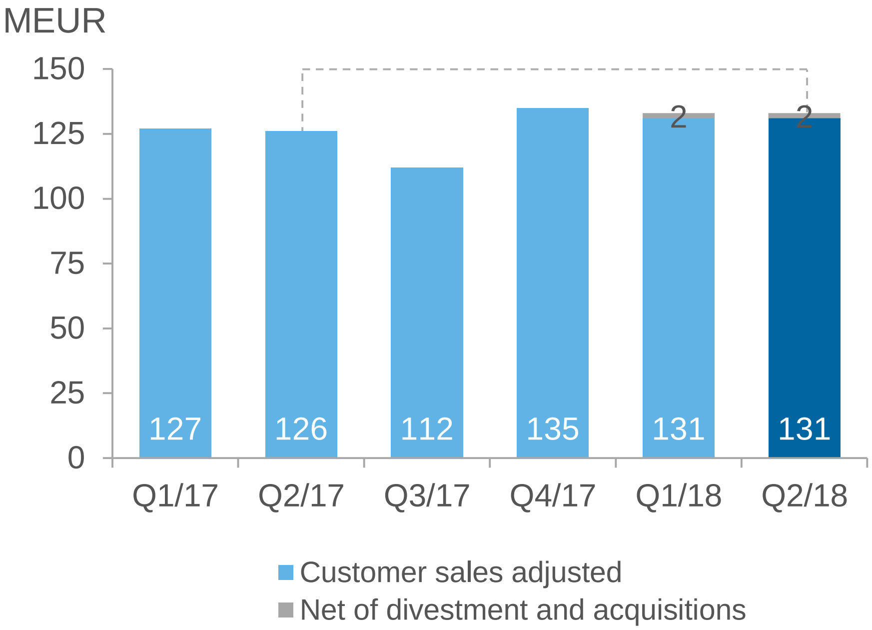
› EUR 133 (126) million, +5%, or +8% in local currencies

**Sales split by service line**

| | Q2/2018 | Q2/2017 |
|---|---|---|
| TSM | 44% | 45% |
| BCI | 13% | 11% |
| IS | 43% | 44% |

**Q2 highlights**

› Development strongest in TSM, driven by cloud and application services
› Development was healthy across several markets, especially in Sweden
› Large Electronic Medical Record procurements ongoing in all Nordic countries while some delays in customers’ renewal projects
› New agreements include Region Skåne and the Finnish Border Guard



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# Industrial and Consumer Services

**Customer sales Q2**

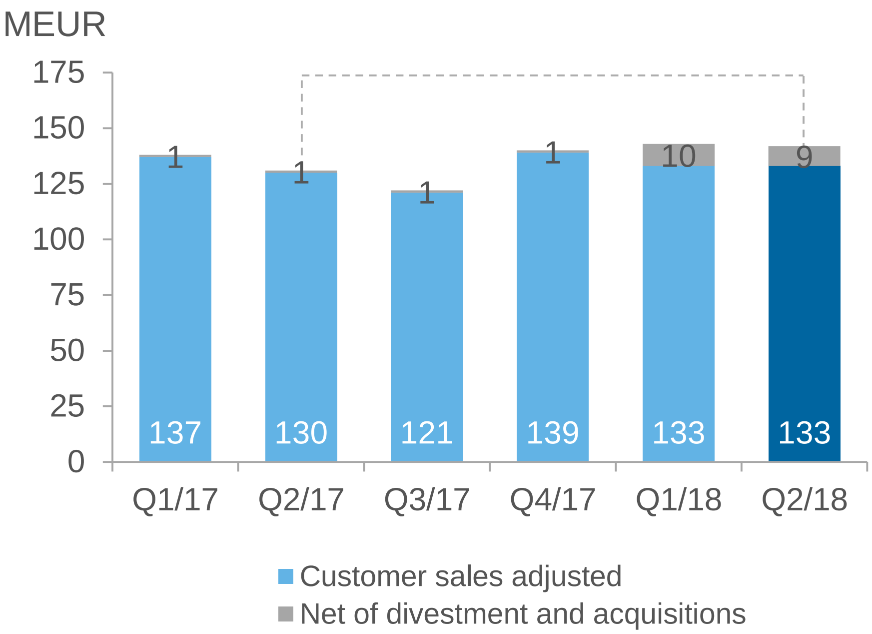
- EUR 142 (131) million, +8%, or +11% in local currencies
- Organic growth in local currencies 5%

**Sales split by service line**

| | Q2/2018 | Q2/2017 |
|---|---|---|
| TSM | 52% | 56% |
| BCI | 26% | 20% |
| IS | 22% | 24% |

**Q2 highlights**

- Several new agreements concluded in H1/2018
- Growth supported by the acquisition of Avega
- Healthy growth in IS, especially in SmartUtilities and Hydrocarbon Management
- New agreements include Palm Paper Group and Singapore LNG Corporation



# Way forward

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# Performance drivers in 2018

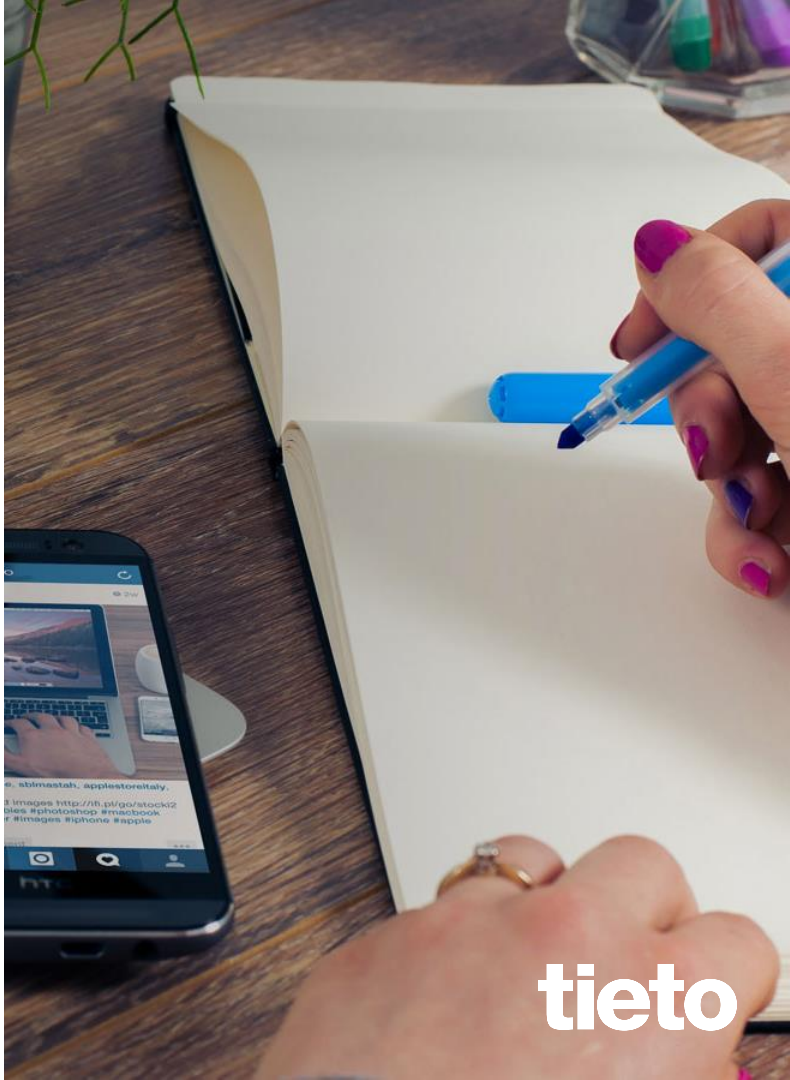
- **Growth above the market**
- Based on current rates, **currency** impact on sales ~EUR 43 million and on profit ~EUR 8 million
- Favorable **offshoring** development
- New **productivity programmes and savings measures** initiated
  - to address currency impact and salary inflation
  - efficiency programme 2017 concluded
- Restructuring costs **at the lower end of the range** – previously, costs expected to be 1–2% of Group sales
- Offering development costs around 5% of Group sales

# Guidance for 2018 unchanged

- Tieto expects its full-year adjusted*) operating profit (EBIT) to increase from the previous year's level (EUR 161.4 million**) in 2017)

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

**) Restated due to the adoption of IFRS 15



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