

Tieto Q4/2015

Strong fourth-quarter results – all businesses performing well

4 February 2016

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Q4 2015 in brief

Strong fourth-quarter results – all businesses performing well

- Organic growth of 3% in IT services driven by Industry Products
- Reported operating margin of 12% driven by healthy business mix and Managed Services automation programme
- Product Development Services business well stabilized
- Acquisitions accelerate shift towards growth businesses

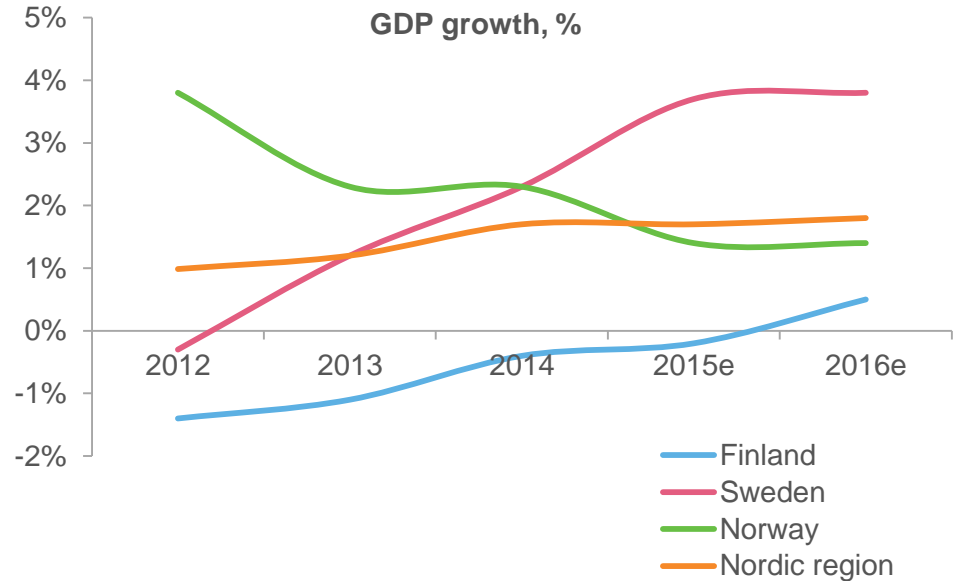
Outlook in the Nordics remains similar to 2015

Weakness in Finland continues

IT market affected by economic outlook

- Positive outlook in the Sweden
- Finnish economy remains sluggish
- **Tieto expects the Nordic IT services market to grow by around 2% in 2016**
- IT services market strongest in Sweden
- Long-term growth in cloud services around 30%

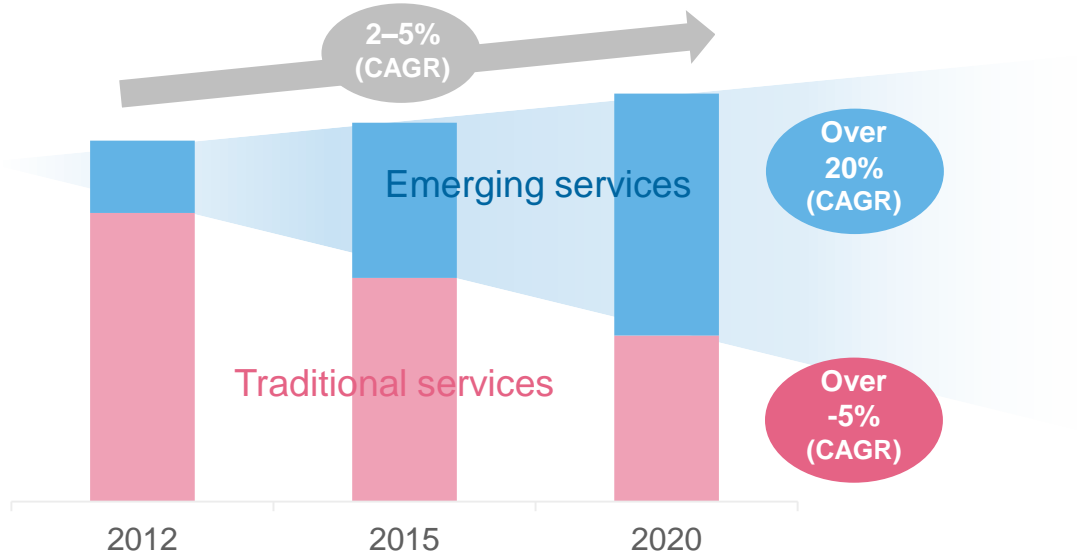
Service	Demand and economic cycles
Project services	More volatile
Application management	Less volatile short-term
Infrastructure outsourcing	Less volatile, even positive impact during downturn



Source: Nordea Markets, Economic Outlook, 1/2016

Tieto's growth businesses up by ~ 20% in 2015

IT services market development



Expected market growth of emerging services (CAGR):

- CEM ~20%
- Industrial Internet ~50%
- Lifecare >4%
- Cloud ~30%

Tieto's business mix

Growth businesses

- Customer Experience Management
- Industrial Internet
- Lifecare
- Cloud

20%
growth*

*In 2015 sales over EUR 260 million
20% of IT services sales*

Other IT services and products, e.g.

- Consulting and system integration
- Industry-specific software

5%
growth*

*In 2015 sales around EUR 450 million
34% of IT services sales*

Traditional services

- Infrastructure services
- Application management

-5%
decline*

*In 2015, sales around EUR 600 million
46% of IT services sales*

*) Growth in local currencies

Capability renewal to take advantage of market changes



1 800 total recruitments, of which around 500 new positions to support our capability development in emerging areas

- Main roles include Business Consultants, Solution Consultants, Architects, Software Developers, Project Managers, Sales

In IT services, acquisitions add over 400 new positions in focus businesses while 700 redundancies based on productivity programmes, incl. MS automation

New start-up added to growth investment areas

Cloud Services

- Currently around 17% of Managed Services' sales
- Enhanced cloud portfolio with first TECO deliveries
- New agreements, e.g. Göteborg Energi, several contracts in the Finnish public sector based on frame agreement

- Annual sales 2015: EUR 80 million
- Growth: 65%

Lifecare

- Good growth and order inflow continued
- Strong development in across all countries
- Healthcare and welfare reform in Finland provides promising opportunities

- Annual sales 2015: over EUR 160 million
- Growth: 6%

Customer Experience Management

- Smilehouse acquisition to drive growth across all industries
- Innovation ecosystems with Tieto X Hub and hackathon accelerated
- New agreements include customer service platform Customer Care aaS to nelly.com

- Annual sales 2015: around EUR 30 million
- Growth: 20%

Industrial Internet

- A number of solutions introduced during the year: M2M in a box, Real Time Factory, Vital (fleet maintenance), eSense
- Tieto Connect Platform launched
- Recognized for innovativeness in global study by HfS
- References include TeliaSonera, Valmet, Orfer Ltd., MTC Flextek, HSB Living Lab

- In 2015, investments around EUR 4 million, cash flow negative

Security Services

- New start-up launched in January
- Tieto's Security Wall monitoring digital security 24/7
- Cyber security market is forecast to grow by ~10% until 2020 and Managed Security Services market faster than that

- In 2015, Tieto's sales in single digit millions

Accelerating growth

Acquisitions

- Software Innovation
- Smilehouse
- Imano

Annual sales close to
EUR 60 million

Recruitments

Around 500
additional roles

New partnerships

- Temenos
- Workday
- Salesforce.com

Growth initiatives in 2015

**Investments in
offering
development**
up by
EUR 10 million

Growth businesses delivering results

Security Services as a
new start-up

Financial development



Q4 2015 key figures

Net sales

- EUR 396 (403) million, -1.8%, organic growth in local currency -2.9%
 - Acquisitions added EUR 14 million
 - Currency EUR -4 million
- In IT services, organic growth in local currencies 2.8%

EBIT

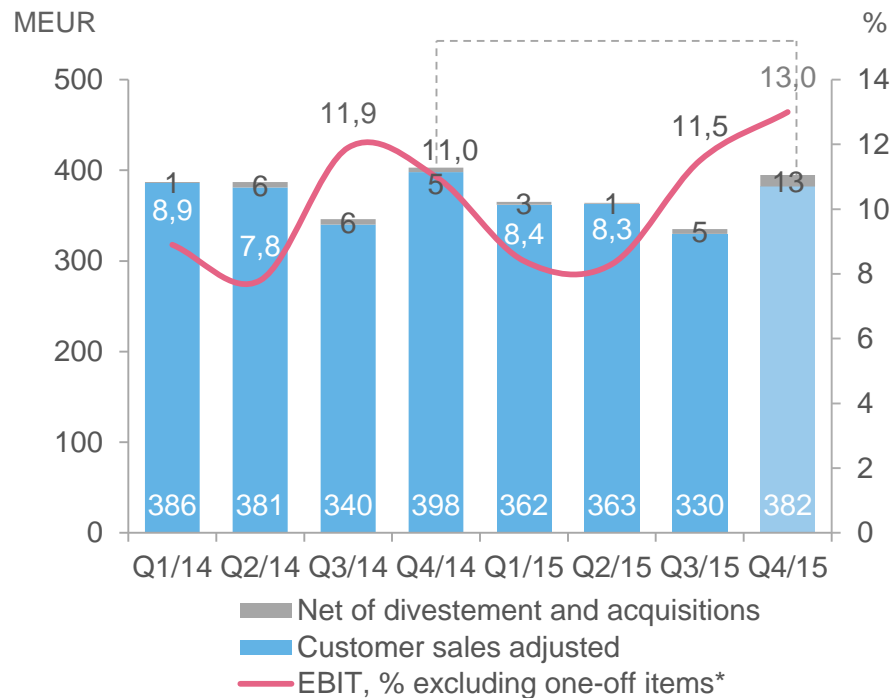
- EBIT EUR 46.8 (9.5) million, 11.8% (2.4%)
 - EUR 4.6 million restructuring costs
- EBIT excluding one-off items* EUR 51.4 (44.4) million, 13.0% (11.0%)
- EBIT excluding one-off items* in IT services EUR 48.3 (32.5) million, 13.3% (9.4%)

Order backlog

- Order backlog EUR 2 030 (1 784) million
- Total Contract Value EUR 641 (672) million
- Book-to-bill 1.62 (1.67)

Earnings per share

- EPS EUR 0.47 (0.09)
- EPS EUR 0.51 (0.47), excluding one-off items*



*) Excluding capital gains, impairments and restructuring costs

Favourable long-term financial development

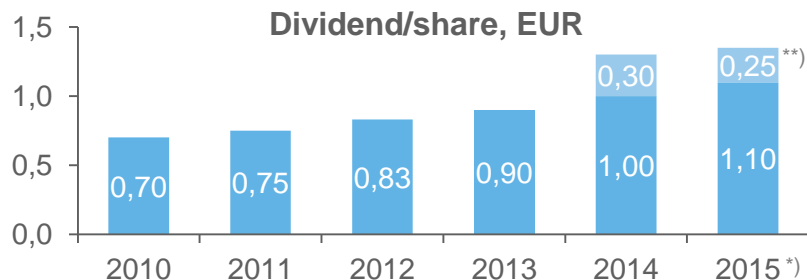
Annual investments in offerings up by 20 mEUR during the past two years

Net sales

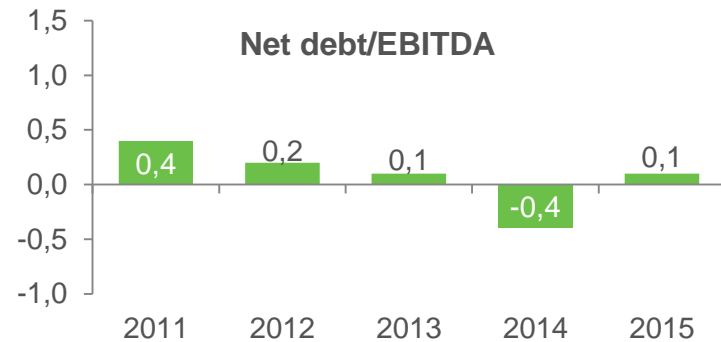
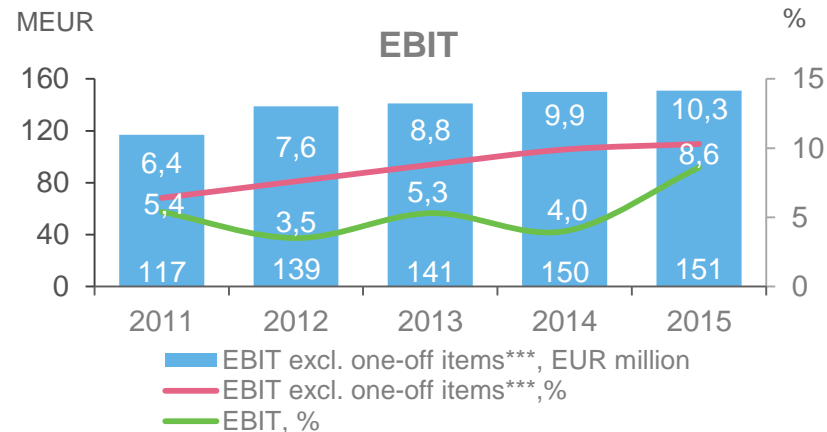
- EUR 1 460 (1 523) million, -4.1%, organic growth in local currency -2.6%
 - Currency EUR -28 million
- In IT services, organic growth in local currencies 2.7%

EBIT

- EBIT EUR 125.2 (61.1) million, 8.6% (4.0)
 - EUR 31 million restructuring costs
- EBIT excluding one-off items* EUR 150.8 (150.2) million, 10.3% (9.9%)
- EBIT excluding one-off items*** in IT services 136.2 (128.5) million, 10.3% (9.9%)



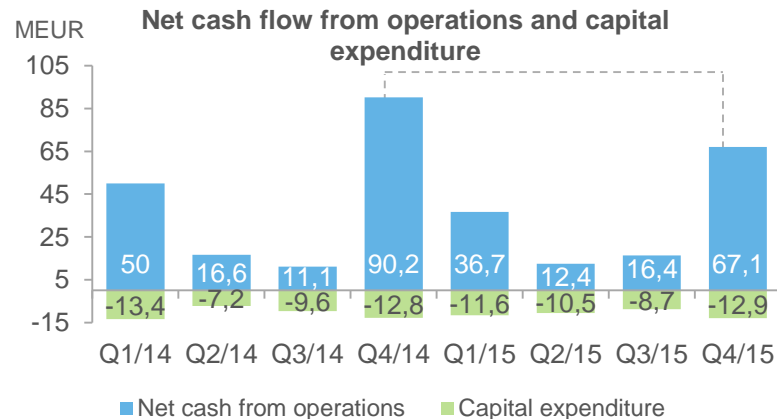
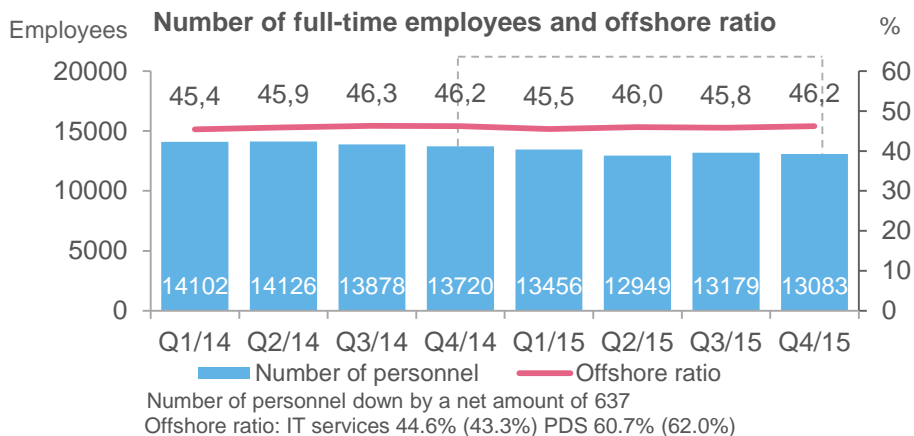
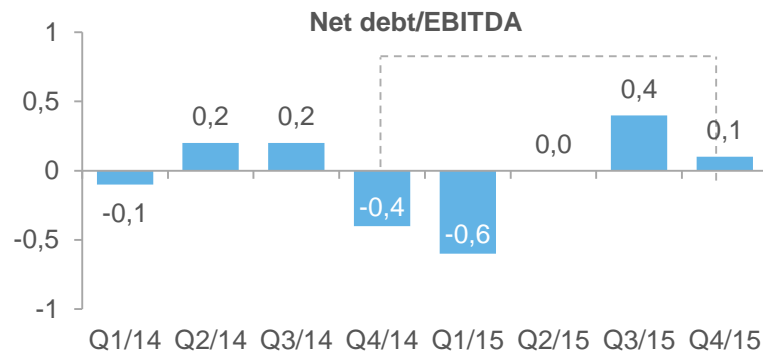
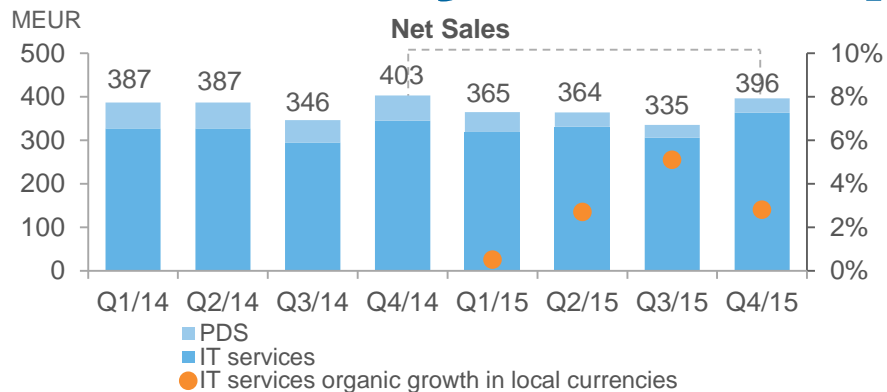
*) Proposed dividend
 **) Additional dividend



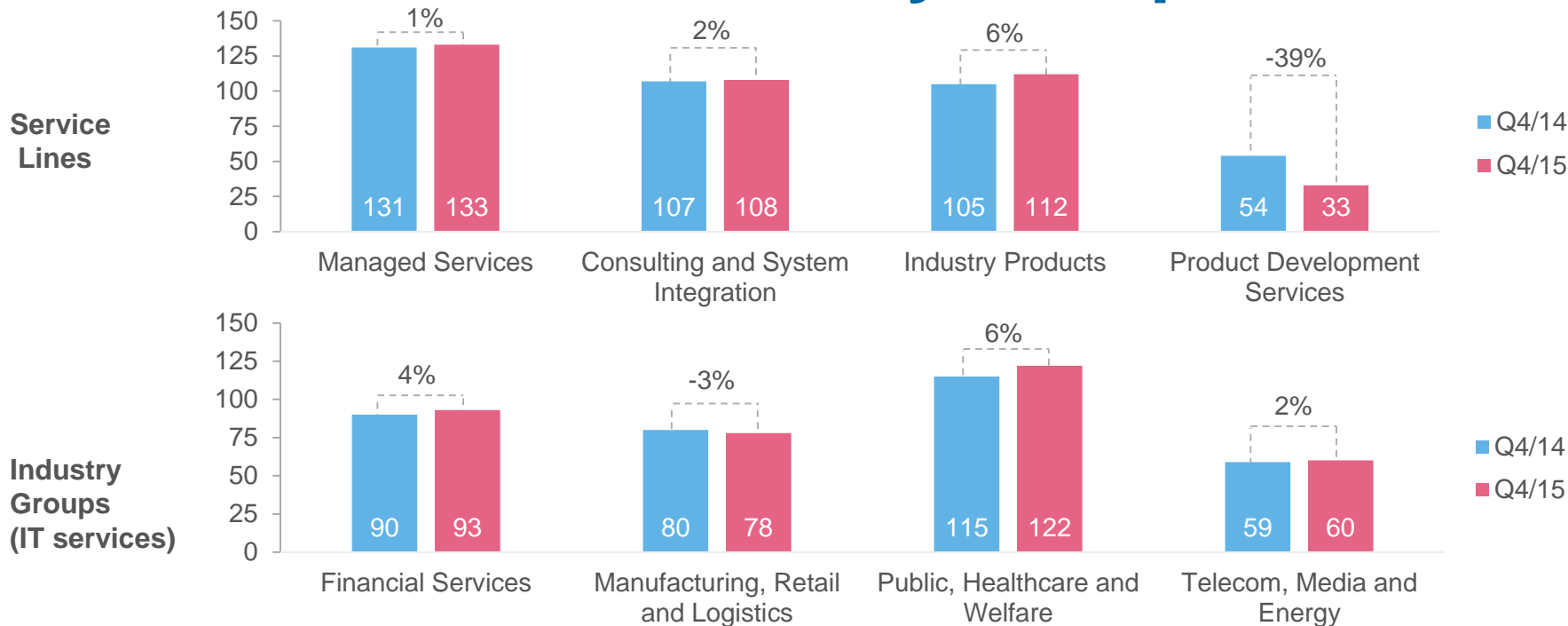
***) Excluding capital gains, impairments and restructuring costs



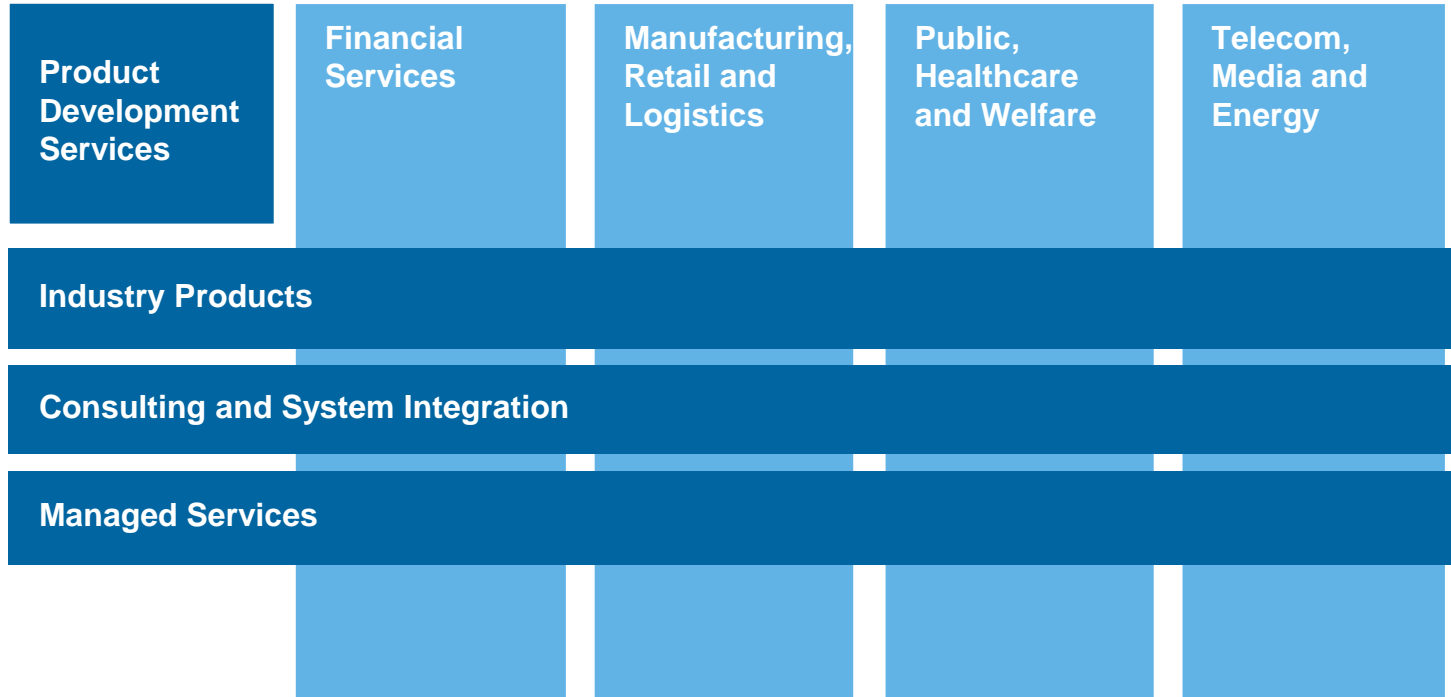
Quarterly development



Organic growth in local currencies by Service Line and Industry Group



Service Lines



Managed Services

Customer sales Q4

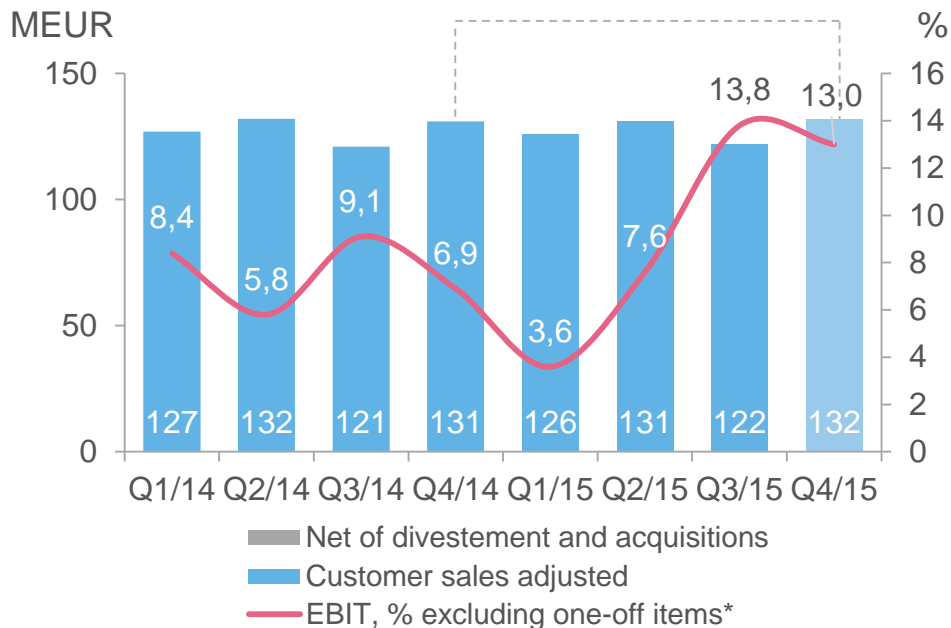
- EUR 132 (131) million, up by 1%
- Organic growth in local currencies 1%

EBIT

- EBIT EUR 18.4 (8.2) million, 13.9% (6.2)
- EBIT excluding one-off items*
EUR 17.2 (9.0) million, 13.0% (6.9)

Q4 highlights

- Cloud sales continued to grow and were up by 39% in Q4, representing 17% of MS sales
- Operating profit improvement mainly due to the savings related to the automation programme aiming at improving customer experience, competitiveness and efficiency of delivery
- Competitive cloud portfolio
 - First TECO delivery in online banking in Q4



*) Excluding capital gains, impairments and restructuring costs

Consulting and System Integration

Customer sales Q4

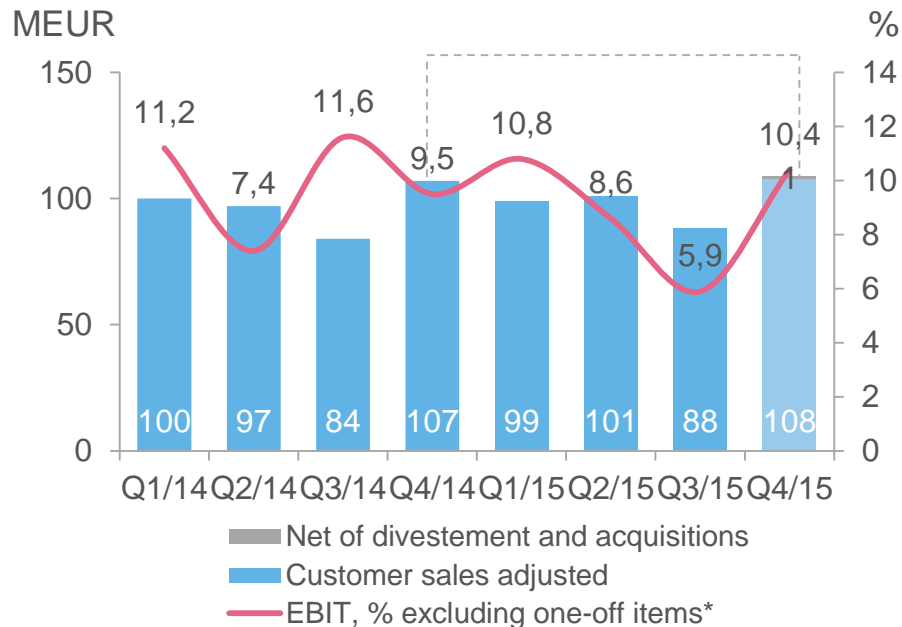
- EUR 109 (107) million, up by 2%
- Organic growth in local currencies 2%

EBIT

- EBIT EUR 8.8 (10.4) million, 8.1% (9.7)
- EBIT excluding one-off items*
EUR 11.3 (10.2) million, 10.4% (9.5)

Q4 highlights

- Strong demand for packaged solutions, industry consulting and CEM, sales for traditional application management down
- Acquisition of Smilehouse and Imano drive future growth
- Recruitments in growth areas while offering development costs were down
- Savings from AM industrialization and decline in offering development costs drive profitability
- Some volatility in margins is anticipated to continue in Q1, especially in application management
 - Industrialization of service deliveries continue



*) Excluding capital gains, impairments and restructuring costs

Industry Products

Customer sales Q4

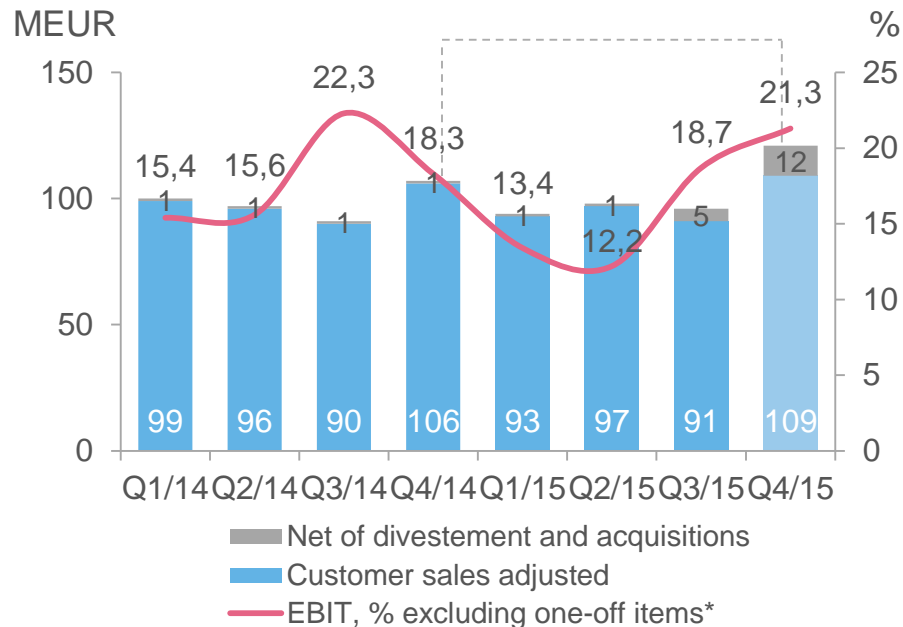
- EUR 121 (107) million, up by 13%
- Organic growth in local currencies 6%

EBIT

- EBIT EUR 25.2 (19.2) million, 20.8% (18.0)
- EBIT excluding one-off items*
EUR 25.8 (19.6) million, 21.4% (18.3)

Q4 highlights

- Strongest development in Financial Services and Healthcare and Welfare, up by 14% and 4%, respectively
- Acquisition of Software Innovation added EUR 12 million to sales
- Demand in the oil and gas segment remained weak and sales continued to decline
- Strong profitability improvement mainly attributable to growth and efficiency improvement
- Offering development costs continued to increase, up by EUR 2 million, mainly in Lifecare and Industrial Internet



*) Excluding capital gains, impairments and restructuring costs

Product Development Services

Customer sales Q4

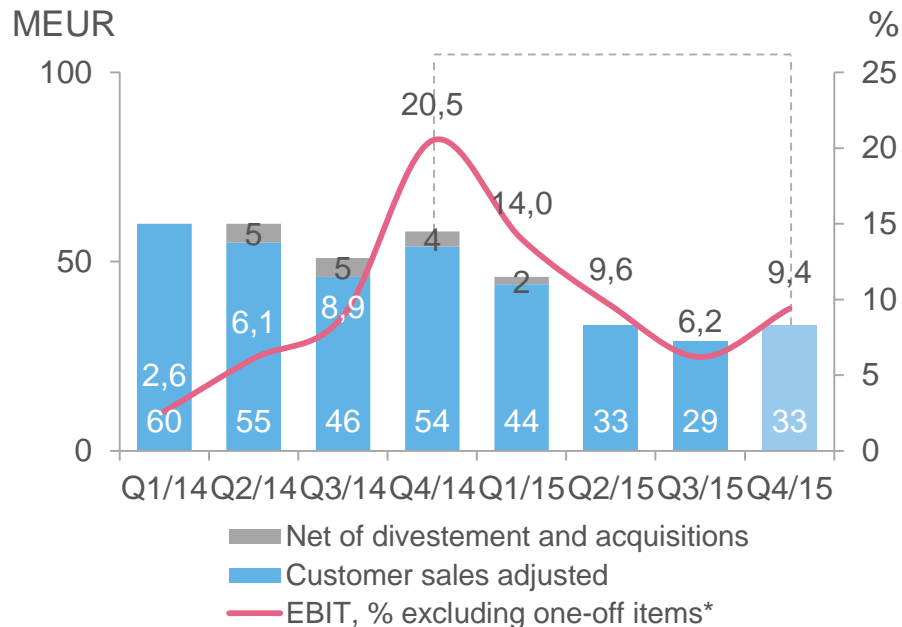
- EUR 33 (58) million, down by 43%
- Organic growth in local currencies -39%

EBIT

- EBIT EUR 2.8 (-4.4) million, 8.4% (-7.5)
- EBIT excluding one-off items*
EUR 3.1 (11.9) million, 9.4% (20.5)

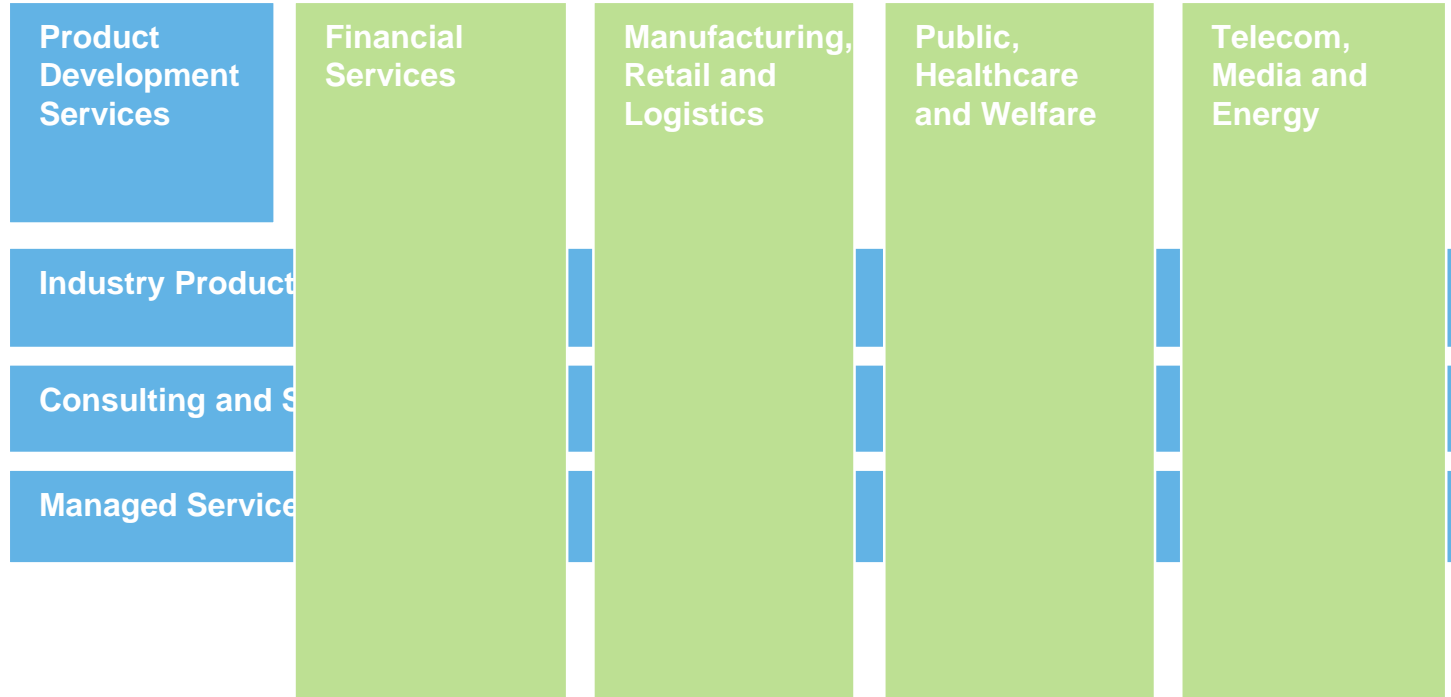
Q4 highlights

- Increased demand in telecom cloud network function virtualization, new wins in this area
- Market for building IoT technology platforms and connectivity for customers emerging – first common cases with Industrial Internet in the pipeline
- Operating profit down – Q4 in 2014 was exceptionally high as it included income related to temporary commercial terms
- Efficiency measures undertaken in 2014 have resulted in a healthy cost structure for the existing business



*) Excluding capital gains, impairments and restructuring costs

Industry Groups



Financial Services

Customer sales Q4

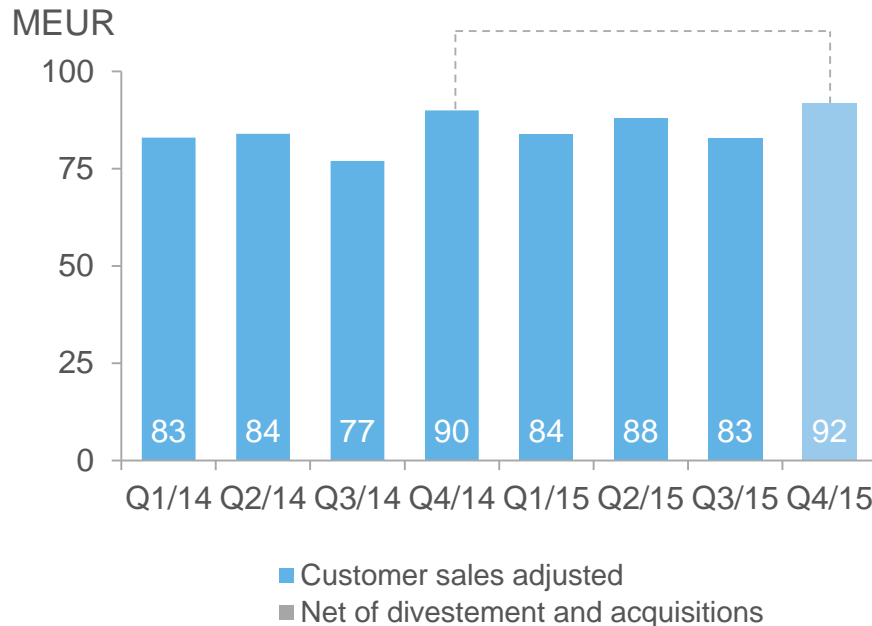
- EUR 92 (90) million, up by 2%
- Organic growth in local currencies 4%

Sales split by service line

	Q4/2015	Q4/2014
MS	44%	44%
CSI	20%	23%
IP	36%	33%

Q4 highlights

- Good demand all across the banking and insurance segments, especially in Sweden and global payments markets
- Sales growth driven by Industry Products
 - Strong performance in a number of solutions, such as Payments and business process outsourcing combined with Software as a Service in the SME segment
- New agreements include ICA Banken



Manufacturing, Retail and Logistics

Customer sales Q4

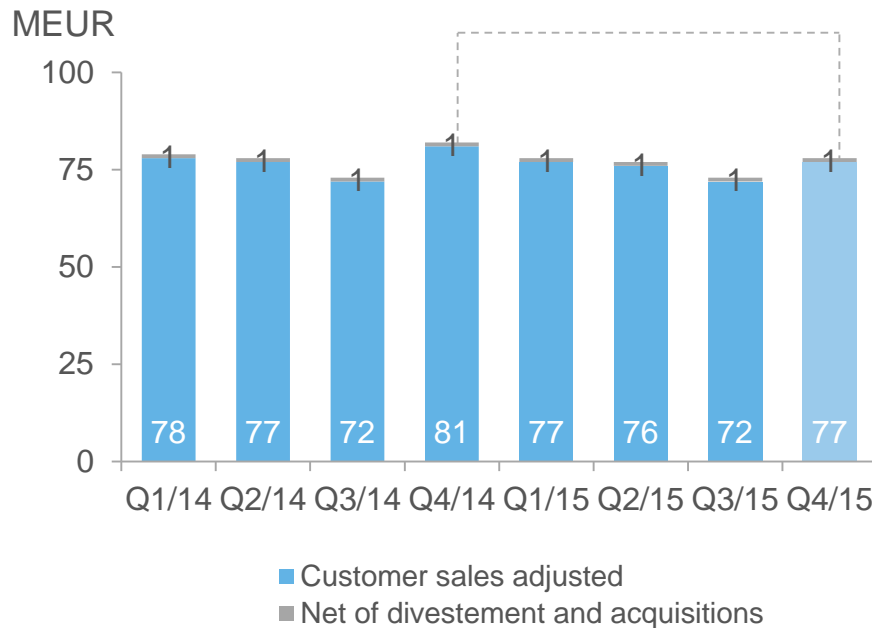
- EUR 78 (82) million, down by 4%
- Sales in local currencies down by 3%

Sales split by service line

	Q4/2015	Q4/2014
MS	52%	51%
CSI	39%	38%
IP	9%	11%

Q4 highlights

- Positive development continued in the manufacturing and forest sectors due to several new agreements
- Q4 sales was affected by delayed investment decisions in the retail sector in Finland
- New agreements with SSAB and Suominen



Public, Healthcare and Welfare

Customer sales Q4

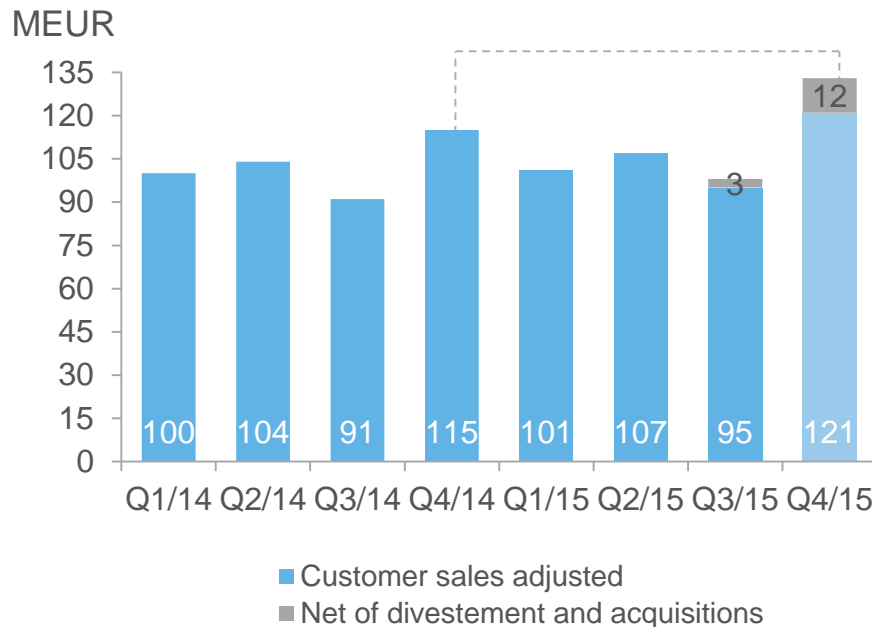
- EUR 133 (115) million, up by 16%
- Organic growth in local currencies 6%

Sales split by service line

	Q4/2015	Q4/2014
MS	32%	35%
CSI	24%	26%
IP	44%	39%

Q4 highlights

- In Public, Healthcare and Welfare, sales in local currencies were organically up by 6%.
- Acquisition of Software Innovation added around EUR 12 million to sales
- Organic growth was mainly attributable to the healthcare and welfare sector and the public sector in Finland
- New agreements with Finnish Ministry of Employment and Economy, City of Tampere and a number of agreements based on Valtori frame agreement



Telecom, Media and Energy

Customer sales Q4

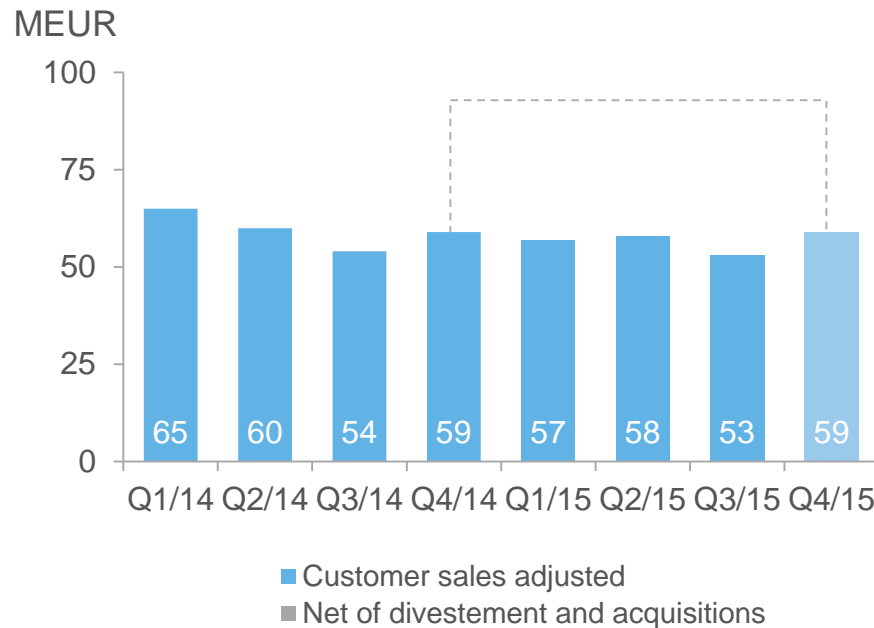
- EUR 59 (59) million, at the previous year's level
- Organic growth in local currencies 2%

Sales split by service line

	Q4/2015	Q4/2014
MS	14%	17%
CSI	49%	44%
IP	37%	39%

Q4 highlights

- Positive development in the telecom and energy utilities segments drive organic growth
- Sales in the media segment as well as the oil and gas segment continued to slide due to challenging market conditions
- Tieto Smart Utility Suite launched in 2015, first go-live successfully completed in January
- New wins include Göteborg Energi



Summary of 2015 profit drivers

Automation as a basis for efficient delivery and customer experience

Performance drivers in IT services	2015 Impact on profitability ¹⁾
Sales growth	●
Increase in offering development	●
Costs for new hires in growth businesses	● ●
Cost savings in MS and CSI	● ●
Currency fluctuations	●
Other efficiency gains and business mix change	●

IT services delivered good results while investments increased

- Sales organically up by 3%, growing faster than the market
- MS automation and industrialization in CSI result in improved productivity and competitiveness
- Recruitments support the company transformation
- Offering development increased in order for us to ensure a leading position in the changing market
- Other efficiency gains, e.g. related to facilities and procurement, and change in business mix also contributed to profitability

PDS successfully adjusted the cost base for the existing business

¹⁾ Illustrative, in comparison with the previous year

Performance drivers in 2016

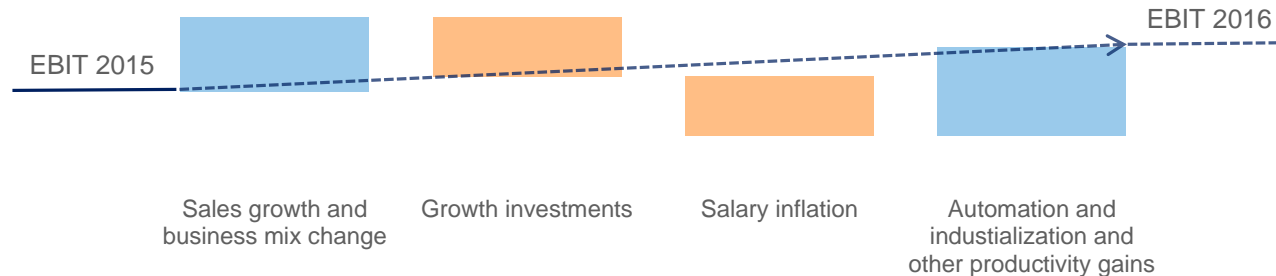
IT services

- We aim to grow faster than the market, supported by strong order backlog
- Productivity gains will carry to 2016 while Q1 seasonally weaker
- Growth initiatives supported by recruitments and higher offering development
- Anticipated restructuring less than 2% of sales

Product Development Services

- Healthy cost structure for the existing business, margin expected to remain in a range below 10%

Profitability drivers in IT services



Guidance for 2016

Tieto expects its full-year adjusted operating profit^{*)} (EBIT) to increase from the previous year's level (EUR 150.8 million in 2015).

Based on European Securities and Markets Authority (ESMA) regulation, Tieto will report adjusted operating profit in 2016

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



Solid strategy execution

Transformation as a foundation for next steps

2012

Build the foundation

2013

Execute the structure and efficiency

2014

Reorienting for growth

2015

Accelerate growth portfolio

- Growth initiatives include acquisitions and third start-up
- Accelerated recruitments and offering development

2016+

Expand markets

2016

- Drive for scale and expansion
- New growth areas, e.g. industry-specific software products

2016 +

- Expand proven growth businesses beyond the Nordics

Opportunities related to market disruption as a basis for our strategy evolution

Our opportunity

Successes to build on

Support renewal of customers business models using leading industry insights and assets

Ensure business continuity and process efficiency through standardization and automation

Differentiating industry solutions

Successful internal start-ups

Growth in line with market

New business models (cloud, outcome based)

Industrialized application services

Managed services automation

Consistent efficiency and performance delivery

Increased M&A activity

Open source culture

Focused
Simplified
Positioned for future

Q4 2015 in brief

Strong fourth-quarter results – all businesses performing well

- Organic growth of 3% in IT services driven by Industry Products
- Reported operating margin of 12% driven by healthy business mix and Managed Services automation programme
- Product Development Services business well stabilized
- Acquisitions accelerate shift towards growth businesses

Changing perspectives™

