

Tieto Q2 2016

Growth of 5% – profit improvement continues

22 July 2016

Kimmo Alkio – President and CEO

Lasse Heinonen – CFO

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The Tieto logo is displayed in white lowercase letters on a blue triangular background in the bottom right corner of the slide. The background of the entire slide is a photograph of a diverse group of office workers in a modern, bright workspace, looking at a laptop and discussing work. A blue triangle is overlaid on the bottom right corner, containing the Tieto logo.

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Q2 2016 in brief

Growth of 5% – profit improvement continues

- Group sales growing by 5% driven by 12% growth in software-based Industry Products
- Adjusted operating margin improvement to above 9%
- Healthy profitability in Product Development Services

IT growth in the Nordics remaining steady

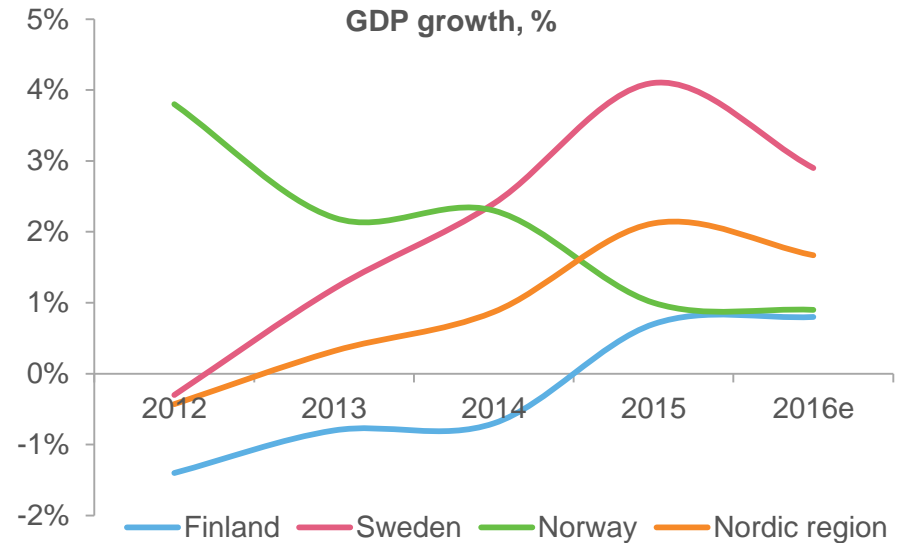
Brexit: short-term marginal impact on Tieto

IT market affected by economic outlook

- 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%

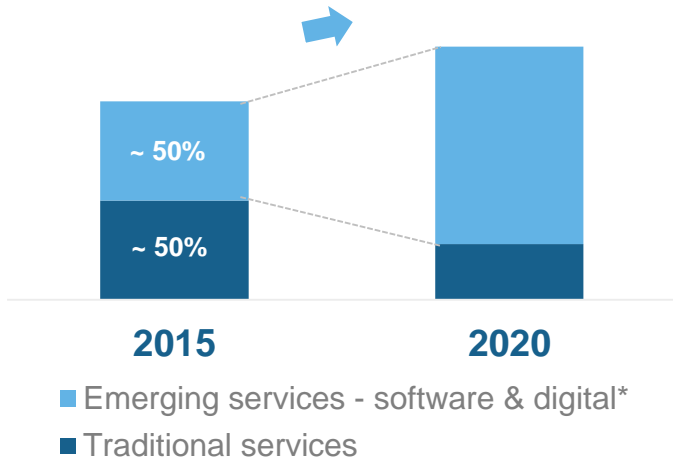
Brexit impact on IT services market growth

- Europe with mixed prospects
- The Nordic market expected to remain stable
- Short-term marginal impact on Tieto, primarily in Financial Services



Business mix shifting towards high-growth services

Tieto's growth ambition for IT services:
Faster than the market** (CAGR 2015-2020)



*Includes current high-growth businesses and internal start-ups which represented ~20% of IT services sales in 2015

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

Sales growth in
2016–2020 (CAGR)



Industry solutions

Cloud and modernization
services

New data-driven businesses

Other integration and services



Traditional infrastructure
and application services

Development in H1 2016

**Current high-growth
businesses**

- ~EUR 160 million, 23% of IT services sales
- Growth 23%

**Other emerging services
and solutions**

- ~EUR 235 million, 34% of IT services sales
- Growth 12%

Traditional services

- ~EUR 293 million, 43% of IT services sales
- Down by 5%

Strong solution foundation to accelerate growth

Current high-growth businesses up by 23%



Cloud Services

- 34% growth in Q2
- Investments in industrialization and new services
- Annual sales 2015: EUR 80 million
- Growth: 65%



Lifecare

- 9% growth in Q2
- Dynamic HCW innovations across the Nordics
- Annual sales 2015: over EUR 160 million
- Growth: 6%



CEM

- 35% growth in Q2, incl. Smilehouse
- Strong demand for eCommerce solutions
- Annual sales 2015: around EUR 30 million
- Growth: 20%



Industrial Internet

- Industrial Internet innovations embedded to a number of solutions, e.g. Production Excellence
- In 2015, investments around EUR 4 million, cash flow negative



Security Services

- Double-digit growth
- New releases complementing Tieto Security Wall
- In 2015, Tieto's sales in single digit millions



Additional focus

Financial services:
Banking and payments



Energy: SmartUtility



Manufacturing:
Production Excellence



Public sector: Case management



Oil & Gas:
Hydrocarbon accounting

Financial development

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Q2 2016 key figures

Net sales

- EUR 381 (364) million, +4.7%, growth in local currencies +5.9%
 - Acquisitions added EUR 15 million
 - Divestments impacted EUR 2 million
 - Currency EUR -4 million
- In IT services, sales growth 6.1%, or 7.3% in local currencies

EBIT

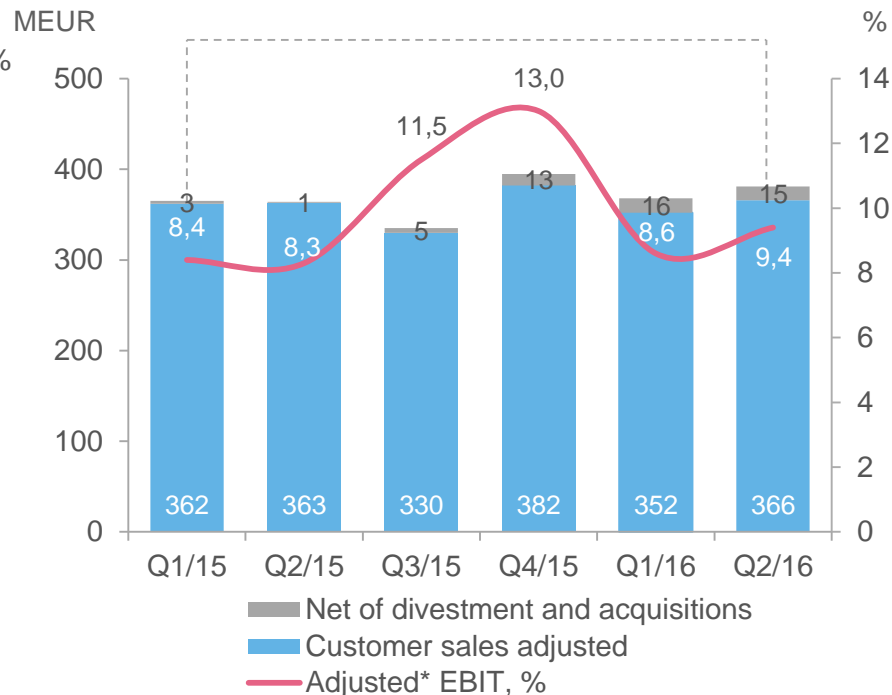
- EBIT EUR 32.3 (23.1) million, 8.5% (6.3%)
- Adjusted* EBIT EUR 35.8 (30.1) million, 9.4% (8.3%)

Order backlog

- Order backlog EUR 1 757 (1 737) million
- Total Contract Value EUR 326 (340) million
- Book-to-bill 0.9 (0.9)
- Stronger order intake expected for H2

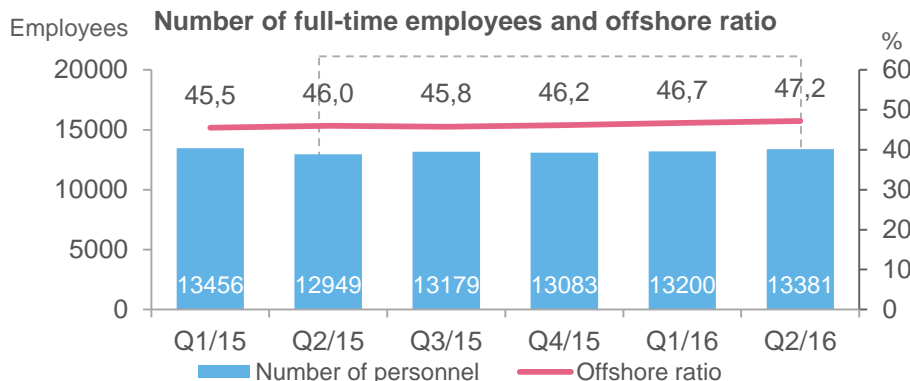
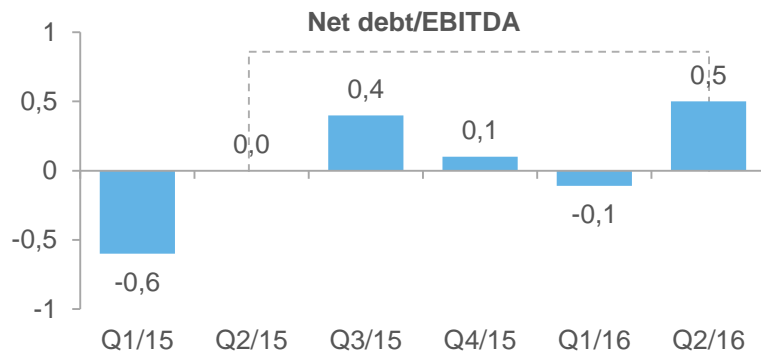
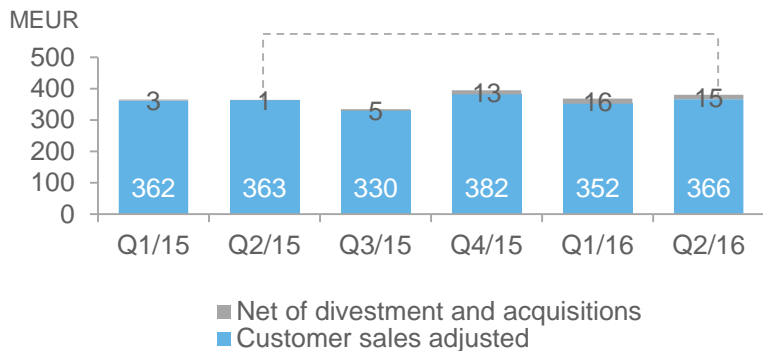
Earnings per share

- EPS EUR 0.33 (0.24)
- EPS EUR 0.37 (0.31), adjusted*

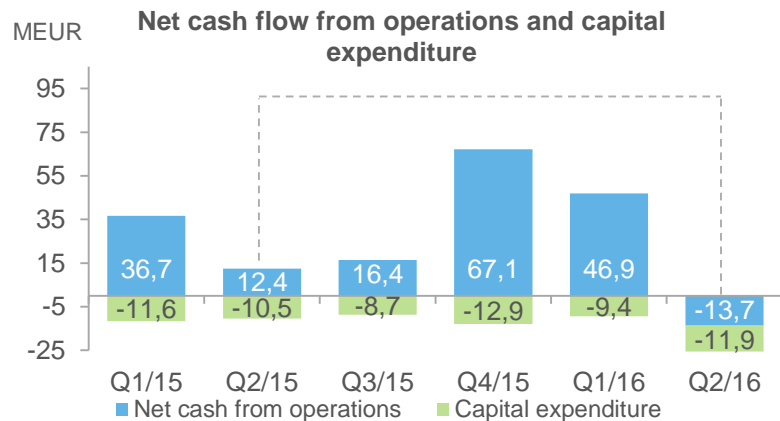


*) adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items

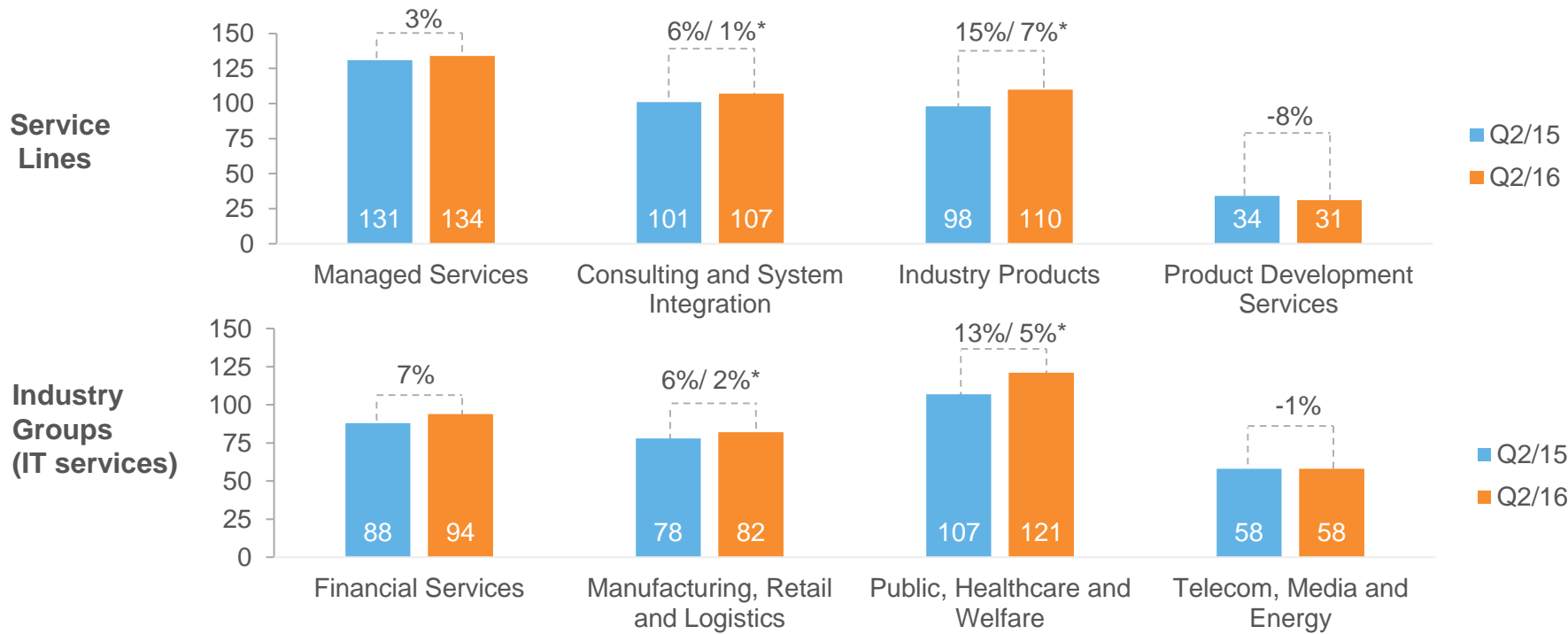
Quarterly development



Number of personnel up by a net amount of 433
Offshore ratio: IT services 45.9% (44.9%) PDS 60.9% (55.4%)

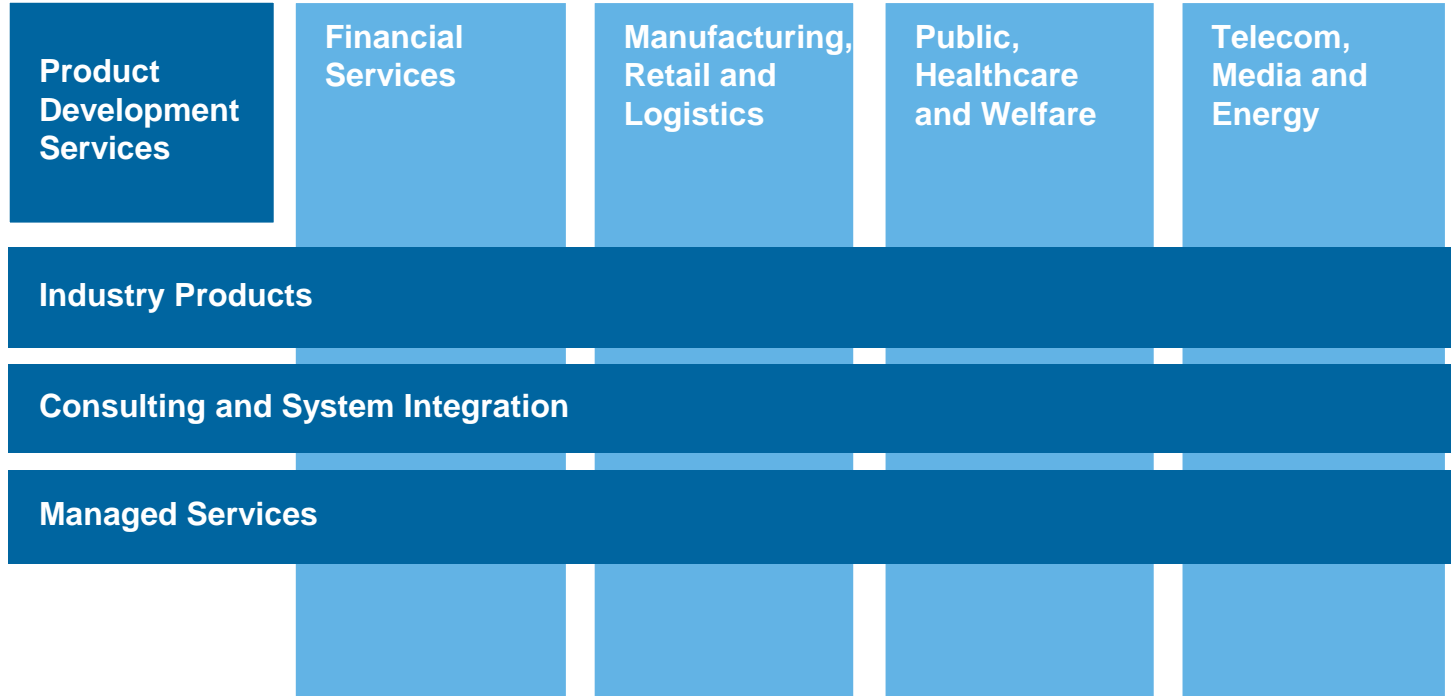


Growth in local currencies by Service Line and Industry Group



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

Service Lines



Managed Services

Customer sales in Q2

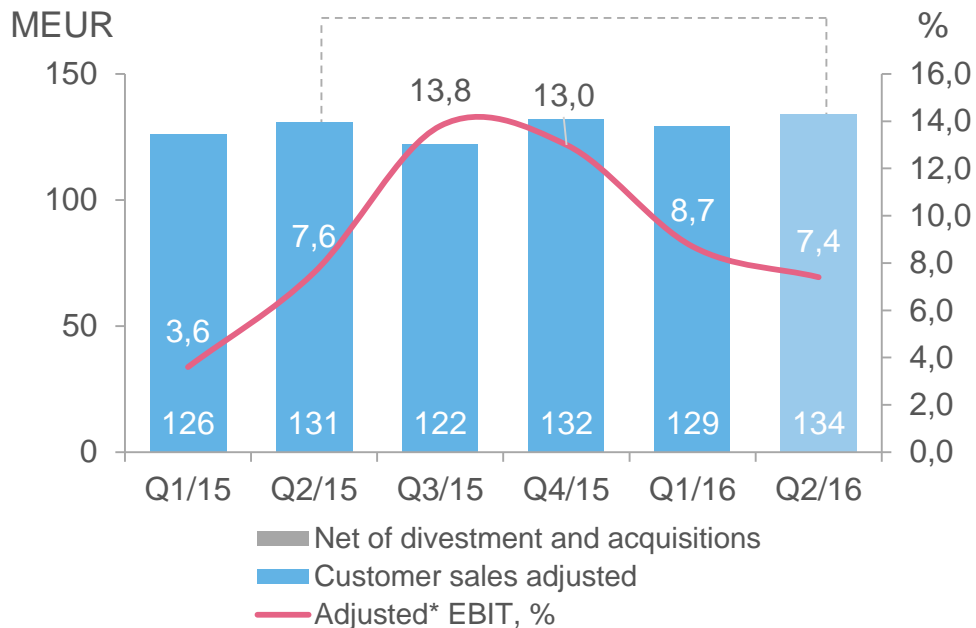
- EUR 134 (131) million, +3%, growth of 3% in local currencies

EBIT

- EBIT EUR 9.8 (3.1) million, 7.4% (2.4)
- Adjusted* EBIT EUR 9.9 (9.9) million, 7.4% (7.6)

Q2 highlights

- Cloud sales up by 34% in Q2, representing 20% of MS sales
- Strong growth in shared, standardized workspace services with competitive ecosystem
- Productivity focus continues with automation and offshore transitions
- Operating profit affected by
 - additional investments in Security, new cloud services and further industrialization
 - debt restructuring of one customer
- Operating margin in Q3 to follow seasonality while investments in industrialization will continue



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

Consulting and System Integration

Customer sales Q2

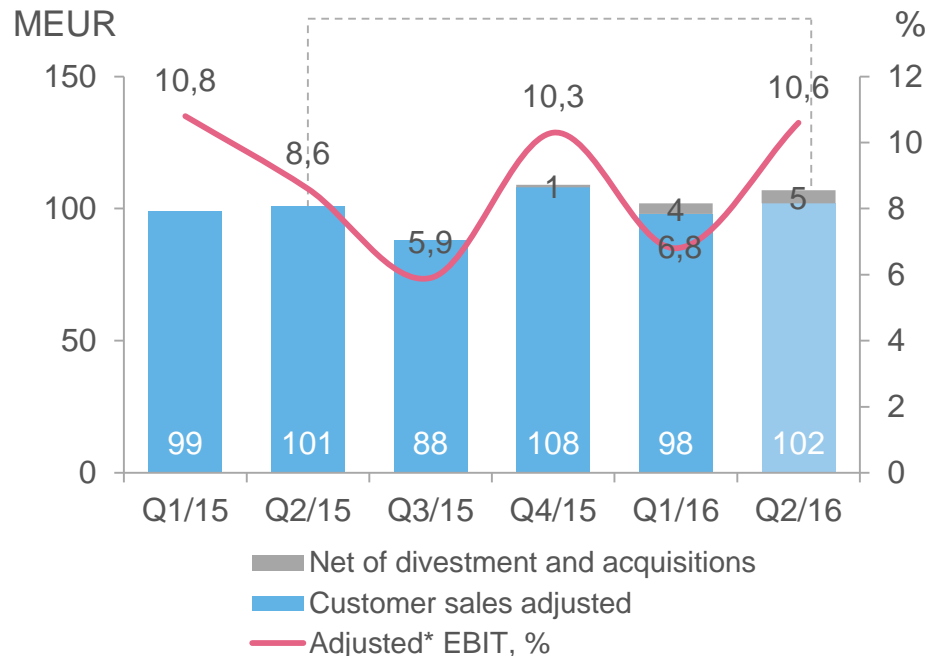
- EUR 107 (101) million, +6%, growth of 6% in local currencies
- Organic growth in local currencies 1%

EBIT

- EBIT EUR 10.9 (8.5) million, 10.2% (8.4)
- Adjusted* EBIT EUR 11.3 (8.7) million, 10.6% (8.6)

Q2 highlights

- Growth supported by acquisitions of Smilehouse and Imano, and the number of working days
- Profit improvement driven by additional sales in enterprise applications and consulting businesses
- ADM productivity improvement through industrialization
- Overall billing ratio slightly better than earlier anticipated
- Q3 margin anticipated to exceed Q3/2015 but remain below the Q2/2016 level



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

Industry Products

Customer sales Q2

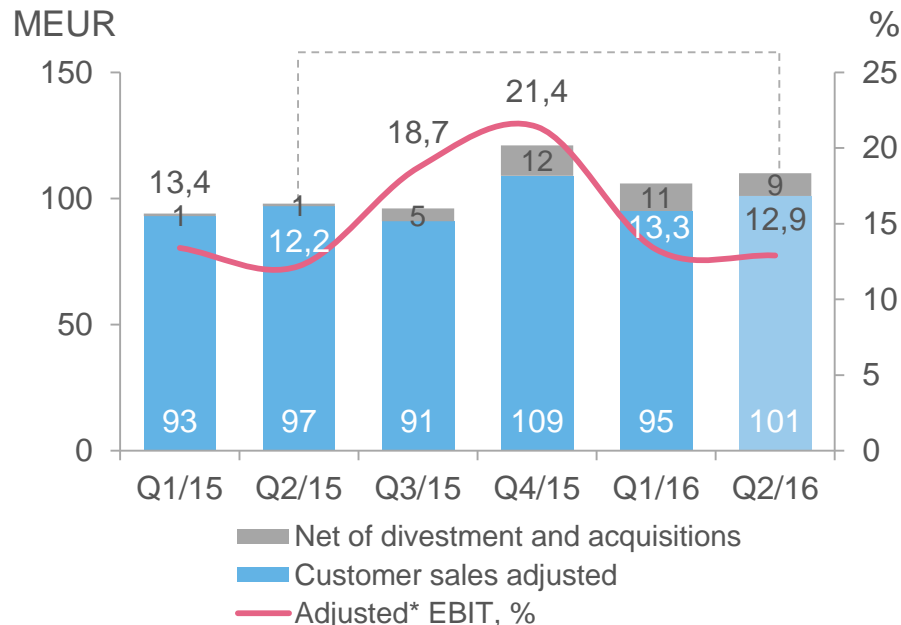
- EUR 110 (98) million, +12%, growth of 15% in local currencies
- Organic growth in local currencies 7%

EBIT

- EBIT EUR 12.5 (10.8) million, 11.4% (11.0)
- Adjusted* EBIT EUR 14.1 (12.0) million, 12.9% (12.2)

Q2 highlights

- Strongest development in Financial Services and Public, Healthcare and Welfare, up by 11% and 30% (in local currencies), respectively
- Healthcare and Welfare solutions (Lifecare) growth 9%
- Sales affected by the acquisition of Software Innovation and the divestment of Lean System
- Operating profit somewhat up
 - Improvement partly offset by the EUR 3 million increase in offering development costs
- Margin trend expected to follow the previous year's path



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

Product Development Services

Customer sales Q2

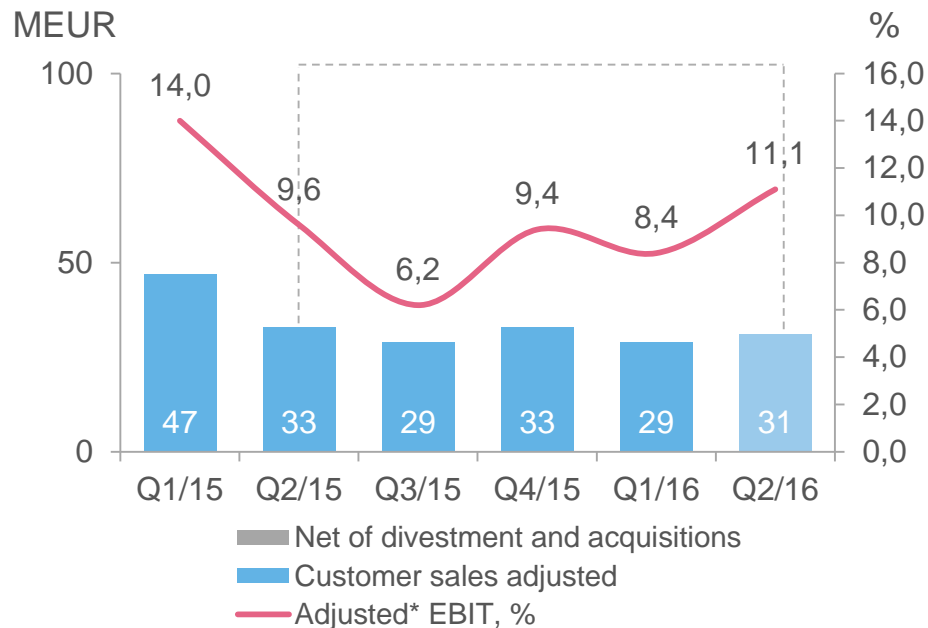
- EUR 31 (34) million, -9%, decline of 8% in local currencies

EBIT

- EBIT EUR 3.3 (5.7) million, 10.7% (17.1)
- Adjusted* EBIT EUR 3.4 (3.2) million, 11.1% (9.6)

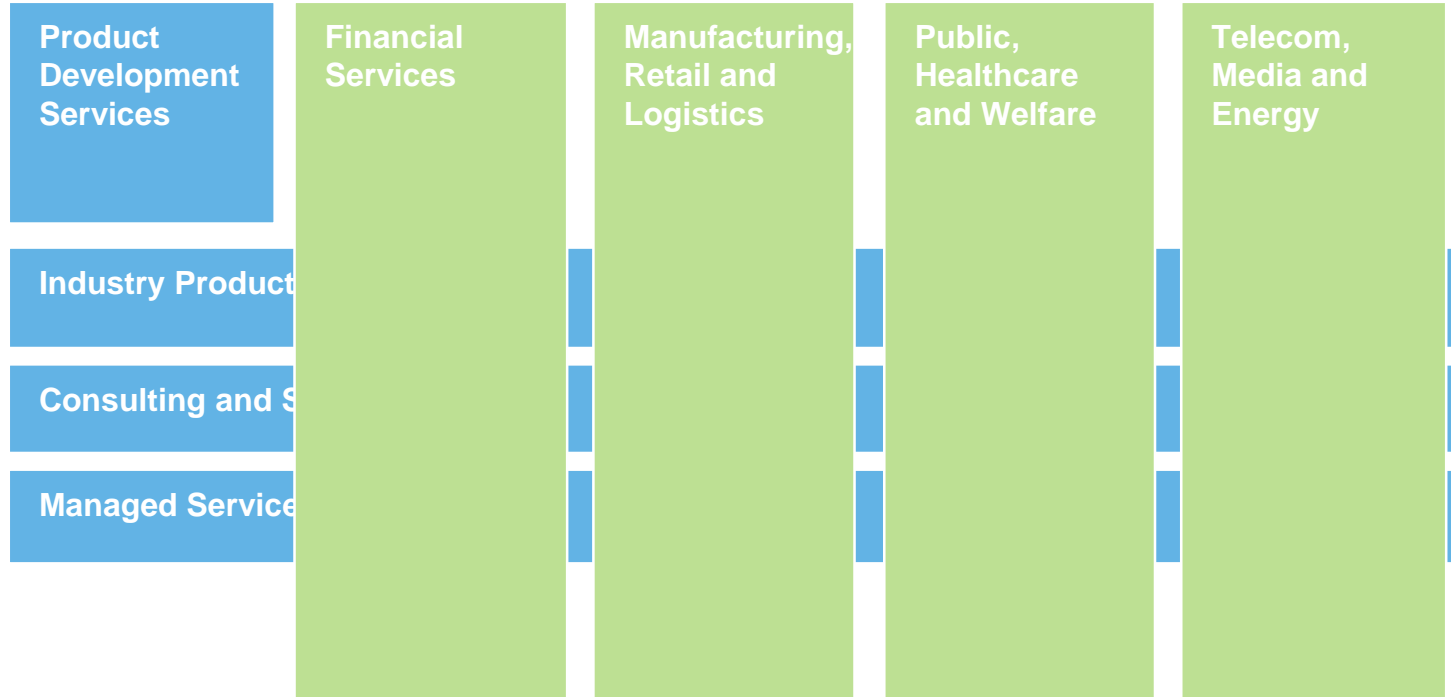
Q2 highlights

- Business with key customers progressing well
- Sales decline vs Q2/2015 due to a few expected end-of-life projects
- New customer acquisition proceeding as planned and opening up new growth opportunities
- Strong operating margin due to improved efficiency and improved business mix
- Sales anticipated to stabilize while Q3 operating margin seasonally lower and affected by project ramp-ups



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Industry Groups



Financial Services

Customer sales Q2

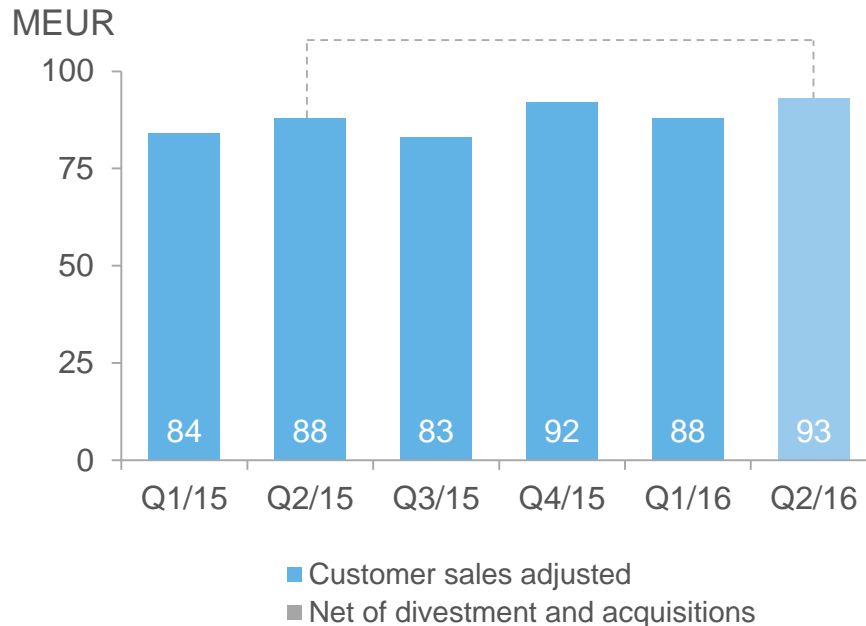
- EUR 93 (88) million, +6%, growth of 7% in local currencies

Sales split by service line

| | Q2/2016 | Q2/2015 |
|-----|---------|---------|
| MS | 44% | 47% |
| CSI | 23% | 21% |
| IP | 33% | 32% |

Q2 highlights

- Growth driven by new projects in Finland and Industry Products' good performance
 - a number of solutions, such as Payments and Banking as a Service solutions in the SME segment
 - consulting on the rise, especially in Sweden
- Good demand all across the banking and insurance segments



Manufacturing, Retail and Logistics

Customer sales Q2

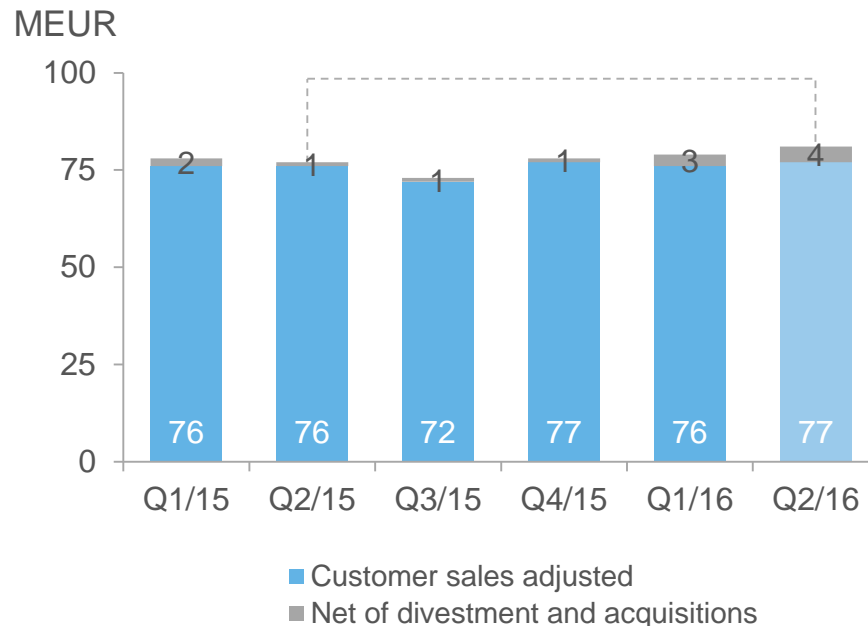
- EUR 82 (77) million, +5%, growth of 6% in local currencies
- Organic growth in local currencies 2%

Sales split by service line

| | Q2/2016 | Q2/2015 |
|-----|---------|---------|
| MS | 50% | 52% |
| CSI | 41% | 38% |
| IP | 9% | 10% |

Q2 highlights

- Sector back to growth driven by Manufacturing and Forest
- Smilehouse and Imano acquisitions supporting growth and competitiveness
- Activity level rising in Retail – expected to become visible in H2



Public, Healthcare and Welfare

Customer sales Q2

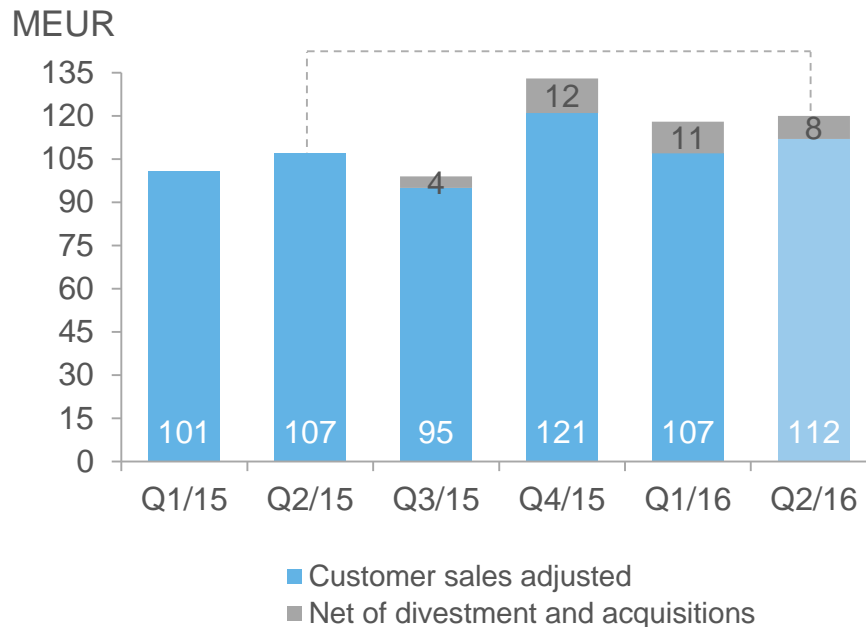
- EUR 120 (107) million, +13%, growth of 13% in local currencies
- Organic growth in local currencies 6%

Sales split by service line

| | Q2/2016 | Q2/2015 |
|-----|---------|---------|
| MS | 36% | 37% |
| CSI | 22% | 25% |
| IP | 43% | 38% |

Q2 highlights

- Strong 30% growth in Industry Products, organically up by 11%
- Demand remained good across all segments, Healthcare and Welfare sector and the public sector in Finland and Sweden
- Software Innovation business performance continues to be good, incl. new customer wins



Telecom, Media and Energy

Customer sales Q2

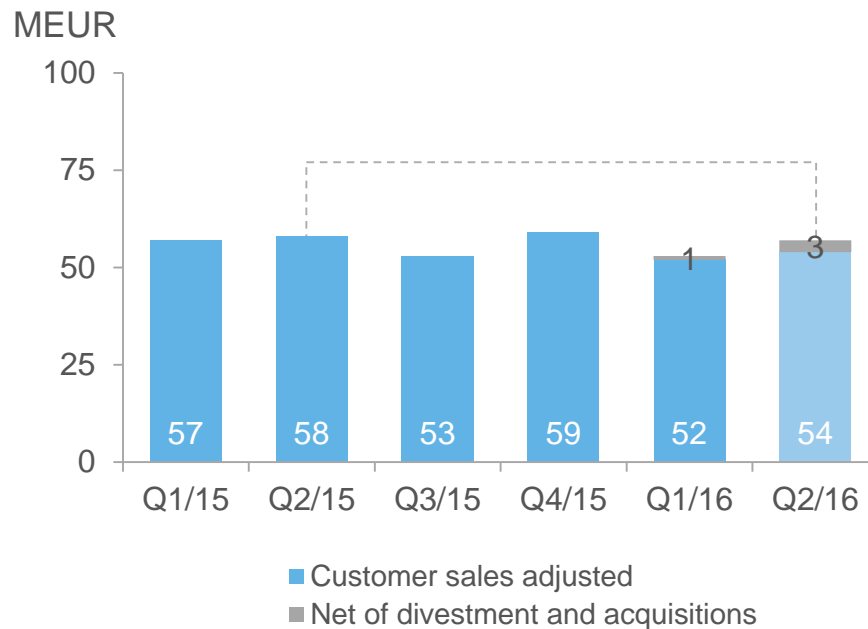
- EUR 56 (58) million, -4%, decline of 1% in local currencies

Sales split by service line

| | Q2/2016 | Q2/2015 |
|-----|---------|---------|
| MS | 16% | 17% |
| CSI | 47% | 45% |
| IP | 37% | 37% |

Q2 highlights

- Strong growth in Sweden, Telecom & Media challenged in Finland
- Sales were down as anticipated due to the expiry of some outsourcing contracts in Media
- Positive development in the energy utilities segment continued and sales to the telecom segment remained at the previous year's level



Performance drivers in 2016

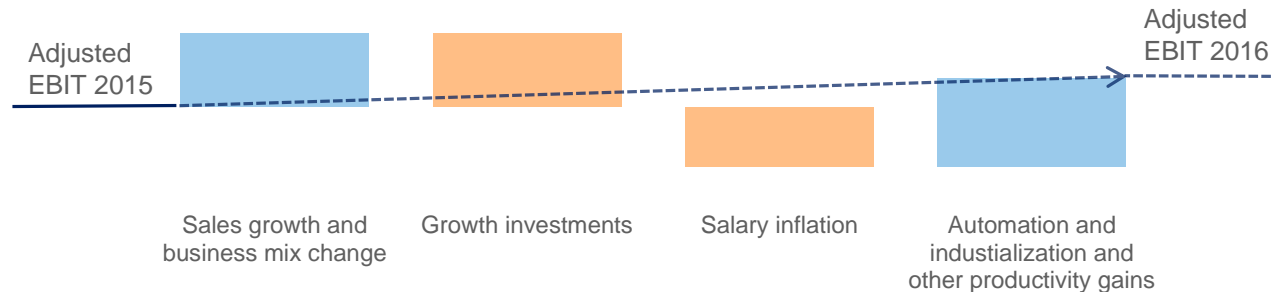
IT services

- We aim to grow faster than the market, growth supported by acquisitions
- Automation and industrialization expected to result in savings of around EUR 30 million in total
- Growth initiatives supported by recruitments and higher offering development
- *Anticipated restructuring slightly above 1% 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



Strategy 2016–2020

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Tieto strategy 2016–2020

We aim to be our customers' first choice for business renewal

Services to accelerate customer value

Build solutions and capabilities to accelerate our customers' business performance and renewal.

Nordic leadership and international expansion

Further accelerate our strong market position in the Nordics and expand industry solutions internationally.

Openness and co-innovation

Co-innovate with customers and partners, access open talent networks and drive continuous skill and capability development.

Business choices building on our strengths

- ✓ Vertical industry solutions
- ✓ Technology services and modernization
- ✓ New data-driven businesses

We implement the strategy in phases

2012

2016

2017 - 2018

2019 - 2020

Accelerate capabilities in Sweden and industry solutions

- Accelerate capabilities and growth in Sweden
- Implement new structure and operating model
- Invest into SIAM*, service productization and cognitive automation
- Expand selected industry solutions internationally
- Pilot data-driven businesses

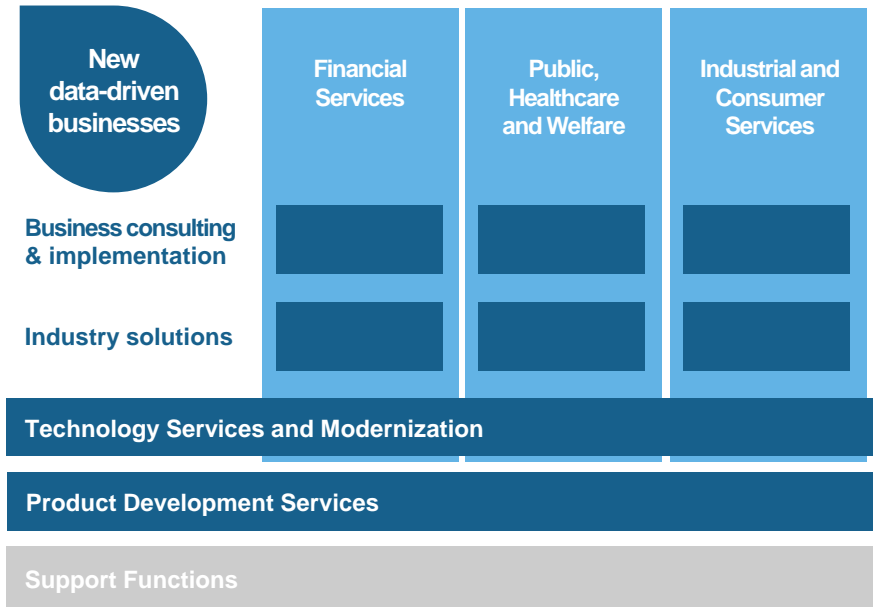
Drive innovation and selective market entry

- Scale chosen industry solutions internationally
- Accelerate and commercialize data-driven businesses
- Operationalize open talent networks and innovation ecosystem
- Standardize service architectures and cognitive automation

Actively expand internationally

- Expand productized services internationally
- Drive large-scale expansion to adjacent markets

Our structure aligned with the strategic choices



- ✓ Faster time to market and co-creation opportunities with the customer by organizing BCI and Industry solutions in Industry groups
- ✓ New data-driven businesses as an independent business – reported in Industry Solutions
- ✓ Effective as of 1 July 2016
- ✓ Third-quarter reporting based on new structure
- ✓ Comparison figures for 2015 and H1/2016 published before Q3 report

Effective as of 1 July 2016

● Industry groups

● Service lines

Upgraded growth ambition – while maintaining profitability focus and attractive dividend policy

Ambition 2020

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

The leading Nordic software and services company with the aim to be customers' first choices for business renewal

Guidance for 2016 unchanged

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 items



Q2 2016 in brief

Growth of 5% – profit improvement continues

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