

tieto



Annual Report

CREATING VALUE FOR LIFE

TABLE OF CONTENTS

Tieto in brief

2016 highlights

CEO's statement

Our operating environment

- 12 IT market drivers
- 13 Market position
- 14 Stakeholder dialogue

Our business and strategy

- 15 Markets
- 17 Strategic priorities
- 19 Operating model
- 21 Value creation

Sustainability

- | | | | |
|----|---------------------------------------|----|----------------------------------------|
| 23 | Our approach to sustainability | 34 | Business ethics |
| 24 | Sustainability long-term plan | 37 | Quality and customer experience |
| 28 | Materiality analysis | 38 | Customer experience |
| 31 | Managing CR | 41 | Quality of products and services |

44	Information security and data privacy	61	Our people
46	Society and stakeholders	66	Learning and talent development
47	Economic impact	68	Diversity and equal opportunities
50	Sustainable IT	72	Employee health and wellbeing
52	Social engagement	74	Employee relations
54	Greener operations	76	Procurement and supply chain
55	Greenhouse gas emissions	78	About sustainability reporting
58	Energy consumption	80	Independent assurance report
60	Waste and use of materials and chemicals	82	GRI content index table

Governance

86	Corporate Governance Statement	99	Major risks
87	Annual General Meeting	102	Related-party transactions
88	Shareholders' Nomination Board (SNB)	102	Insider administration
90	The Board of Directors	103	Auditors
95	The President and CEO and operative management	104	Remuneration Statement
97	Internal control and risk management	110	Letter from the Chairman of the Remuneration Committee

Financials

111	Report by the Board of Directors	124	Major agreements
112	IT market development	126	Business transactions
114	New strategy and implementation	127	Personnel
117	Financial performance	130	Environment
122	Cash flow and financing	131	Shareholders' Nomination Board
123	Investments and development	131	Shares and share-based incentives
123	Order backlog	131	Dividend

132	Near-term risks and uncertainties	171	11. Pension plans
133	Events after the period	174	Income taxes
133	Full-year outlook for 2017	174	12. Income taxes
134	Reported alternative performance measures	175	13. Deferred income tax
135	Financial calendar 2017	177	Assets
136	Consolidated financial statements	177	14. Intangible assets
136	Financial figures	179	15. Property, plant and equipment
139	Income statement (IFRS)	181	16. Available-for-sale financial assets
141	Balance sheet (IFRS)	182	17. Trade and other receivables
143	Statement of cash flow (IFRS)	182	18. Cash and cash equivalents
144	Statement of changes in equity (IFRS)	183	Equity and liabilities
146	Notes to the consolidated financial statements (IFRS)	183	19. Issued capital and reserves
146	Corporate information	183	20. Interest-bearing loans and borrowings
146	Corporate information	184	21. Provisions
146	Basis of preparation and accounting principles for the consolidated financial statements	185	22. Finance leases
146	Basis of preparation	186	23. Trade and other payables
146	New and amended standards adopted by the Group	187	Financial instruments - Fair values and risk management
158	Performance for the year	187	24. Management of financial risks
158	1. Segment Information	192	25. Carrying amounts and fair values of financial assets and financial liabilities
162	2. Percentage of completion	194	26. Derivatives
162	3. Other operating income	196	Group structure and goodwill
163	4. Other operating expenses	196	27. Subsidiary shares
163	5. Development costs	198	28. Interest in joint ventures
164	6. Financial income and expenses	200	29. Acquisitions and disposals
164	7. Earnings per share	201	30. Impairment testing of goodwill
165	Employee benefits	202	Other information
165	8. Employee benefit expenses	202	31. Commitments and contingencies
166	9. Management remuneration	202	32. Operating leases
168	10. Stock options and share incentives	203	33. Related party transactions
		203	34. Events after the balance sheet date
		204	Calculation of key figures
		205	Parent company's financial statements

205	Income statement (FAS)	218	Note 14
206	Balance sheet (FAS)	219	Notes 15-17
208	Statement of cash flows (FAS)	220	Notes 18-19
209	Notes to the parent company's financial statements (FAS)	221	Note 20
		222	Note 21
		223	Note 22
209	Parent company accounting principles	224	Shares and shareholders
212	Notes 1-4	230	Proposal of the Board of Directors
213	Notes 5-7	231	Information for shareholders
214	Note 8	233	Auditor's report (Translation from the Finnish Original)
215	Note 9		
216	Note 10		
217	Notes 11-13		

Tieto in brief

Tieto is one of the largest software and services companies in the Nordics providing full lifecycle IT services. We also provide global product development services for companies in the communications and embedded technologies arena.

Our approximately 900 customers operate both in the private and public sectors. Tieto aims to capture the significant opportunities of the data-driven world and turn them into lifelong value for people, business and society. We aim to be customers' first choice for business renewal by combining our software and services capabilities with a strong drive for co-innovation and ecosystems.

Building on a strong Nordic heritage, Tieto combines global capabilities with local presence.

FACTS AND FIGURES (END OF DEC 2016)

Full name: Tieto Corporation
 Company founded in 1968
 Headquarters in Espoo, Finland
 Number of operating countries: 23
 Listed on NASDAQ OMX in Helsinki and Stockholm
 Total capitalization of equity: EUR 488.1 million
 Total capitalization of liabilities: EUR 586.4 million

KEY FIGURES

	2016	2015
Net sales, EUR million	1 492.6	1 460.1
Operating profit (EBIT), EUR million	140.8	125.2
Operating margin, %	9.4	8.6
Adjusted ¹⁾ operating profit (EBIT), EUR million	152.2	150.8
Adjusted ¹⁾ operating margin, %	10.2	10.3
Profit before taxes, EUR million	136.8	119.3
Earnings per share, EUR	1.46	1.23
Adjusted ¹⁾ earnings per share, EUR	1.58	1.51
Equity per share, EUR	6.62	6.57
Dividend per share, EUR	1.37	1.35
Capital expenditure and acquisitions, EUR million	99.2	136.7
Return on equity, %	22.1	19.0
Return on capital employed, %	21.6	20.4
Gearing, %	22.5	2.7
Equity ratio, %	47.3	46.2
Personnel on average	13 472	13 184
Personnel on 31 Dec	13 876	13 083

¹⁾ Adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items

2016 highlights

Q1/2016

- Tieto launches its third internal start-up – **Security Services** to combat modern cyber security attacks.
- Western Sweden's leading energy company, **Göteborg Energi**, decides to outsource its IT operations to Tieto. The major service areas in scope are within data centre (IT-infrastructure, integration, communication and application operations), work place, service desk and collaboration services.
- Tieto and the Finnish insurance company **LähiTapiola** increase collaboration: cloud services, automation and customer experience in focus.
- Tieto launches a **new strategy to accelerate innovation and growth** on 17 March, 2016.
- Tieto establishes **data-driven businesses** to co-create new solutions and business models with customers.
- Scandinavia's largest online fashion store **Nelly.com** chooses Tieto to provide better customer experience. Nelly.com will be able to offer a personal shopping service through Tieto's Customer Care as a Service (CCaaS).

Q2/2016

- Tieto and Swedish **Sparbanken Syd** sign outsourcing agreement for securities business.
- Tieto guides **Bergen**, Norway's second biggest municipality, on its digitalization journey by introducing new case and records management solution for the entire municipality. The solution forms the platform to offer extended and improved digital services to citizens, businesses and employees.
- Tieto to support **Ahlstrom's** IT transformation in the area of order fulfillment services. With the help of Tieto, Ahlstrom aims for improved and more effective end-to-end service management.
- Tieto continues the **industrialization of managed services** (application and infrastructure services).

Q3/2016

- In September 2016, Tieto acquires **Emric**, a leading Nordic software company for credit processing, to strengthen Tieto's banking solution suite and accelerate go-to-market of industry solutions.
- Tieto enters into strategic partnership with **Lyse** – strengthening the foothold in Norway. The agreement comprises of delivering cloud solutions, infrastructure operations and data centre services to leading Norwegian energy and technology group Lyse.
- Multiple **hackathons** conducted with customers and partners, inviting to an open ecosystem.

Q4/2016

- Tieto is the first Nordic company to appoint **Artificial Intelligence** to the leadership team of the new data-driven businesses unit.
- Finnish retailer **Kesko** and Tieto strengthen partnership to drive efficiency through modernized IT, and to develop digital services and customer experience further.
- Tieto launches **OneCloud** – a new solution allowing customers to efficiently manage multiple cloud services through one platform.
- Tieto develops Finland's first real-time mobile payment platform "**Siirto**" for **Automatia**. Siirto is Finland's first real-time multi-banking platform for mobile payments which follows the new regulations set by EU's Payment Service Directive (PSD2).
- Global cargo handling company **Kalmar** of Cargotec chooses Tieto as a partner to expand and enhance its future B2B eCommerce platform through one new global eCommerce solution. The new solution from Tieto forms an integrated selling platform for Kalmar with better collaboration and enhanced user experience for customers worldwide.



Increasing investments into innovation and growth

Tieto aims to become customers first choice for business renewal as the leading Nordic software and services company. As digitalization gains speed, demand for new innovations and the renewal of customers business and IT increases. Tieto seeks a pivotal role in this change and aims to pursue the significant opportunities of the future data-driven world.

For Tieto, 2016 was a year of renewing our strategy and further increasing investments into innovation and growth. To increase value for our customers, we continued our investments in future innovation, growth businesses and software-based industry solutions. Moreover, as a major step in enhancing employee experience and Open Source Culture, the company's head office moved to Keilalahti in Espoo, Finland.

TIETO'S NEW STRATEGY TO ACCELERATE INNOVATION AND GROWTH

Since our strategy launch in 2012, we have successfully renewed our company: increased our investments in growth businesses, recruited new competencies and established in-house start-ups. After consistent work and solid strategy execution, it was the right momentum for us to accelerate growth and innovation further.

Our new strategy 2016-2020 builds on the solid achievements of our previous strategy period 2012-2016 and upon a strong foundation of differentiating industry software and insight, full life-cycle services, industrialized service delivery and efficient, focused operations.

As stated in our new [strategy](#), Tieto aims to become customers first choice for business renewal. It has been very encouraging to see the good engagement we have been able to create among our stakeholders after the strategy launch.

INCREASED INVESTMENTS IN GROWTH BUSINESSES

In the digital world, all enterprises and organizations are facing a dual agenda: to run existing businesses and operations more efficiently, and to innovate new products and services with customer experience at the center.

With a strong growth and innovation agenda, we continued our investments on a higher level into future competencies, technologies and services. In parallel, we are constantly improving our productivity and competitiveness by continuing to step up standardization and automation.

In 2016 Tieto drove scale and repeatability through investments in software businesses. Growth will be based on a strong solution foundation built on a dynamic portfolio proven in current markets. The portfolio includes high-growth businesses like Customer Experience Management, Security Services and cloud services, in which the company has increased its investments during the past two years. In 2016 we also established new Data-Driven Business unit to deploy data-driven ideas together with our ecosystem.

In addition, to support innovation and longer-term growth, Tieto annually invests around EUR 130 million in the development of new offerings and its data centres.

We also continued to seek growth through M&A, with the acquisition of Emric, a Nordic market leader in software and services for credit processing. This will strengthen Tieto's position in the financial sector, enabling us to provide the full value chain to Nordic banking and finance customers within retail banking and consumer finance markets.

EMPLOYEE EXPERIENCE IN FOCUS

In this rapidly changing world of digitalization, the required skills and competences are evolving fast. Recruitments in new service areas and related competence development together with active co-

innovation with our customers and partners, ensure that we stay one step ahead of competition.

During 2016, Tieto added around 800 new competences in IT services. As a part of our long-term renewal we also actively support all employees with initiatives that enable everyone to constantly learn more and acquire new skills that fit the market demands.

Our employees and their experience was also in focus when we relocated to our new headquarters in Espoo. Keilalahti office is an activity based workplace environment which encourages collaboration and ensures strong communication between all the building's users. Furthermore, to help innovate and co-create new ideas, we also included a hub for our ecosystem of partners, customers and colleagues in Keilalahti. All these efforts foster the Open Source Culture, which promotes increased transparency and openness.

SUSTAINABILITY AND TRANSPARENCY

The importance of Tieto's sustainability work has increased significantly during the past years. In the light of the Paris agreement on climate change and the United Nations Sustainable Development Goals, customers as well as other stakeholders are more and more interested in building sustainable value chains. Tieto's aim as a corporate citizen is to minimize environmental impact, be an ethical forerunner, and create value for all stakeholders.

Digital solutions are important vehicles for reaching the United Nations Sustainable Development Goals. Tieto has explored the environmental impacts of IT since 2010 by calculating the estimated CO₂ emission reductions from our digital transaction services and other digital services replacing paper. In 2016, these estimated reductions amounted 228 ktons CO₂ through these services alone.

To help mitigate climate change we are applying a structured approach involving the whole company. In 2016, our energy consumption decreased by 6%, hence reaching the annual target of -3.5%. Our reported CO₂ emissions decreased by 4% in the full-year.

During the year, our work to become an ethical forerunner in society also continued with undiminished pace. Tieto has zero tolerance to corruption and any other unethical behaviour. 86% of our employees took our Code of Conduct and Anti-corruption e-learning in 2016. The Supplier Code of Conduct Rule coverage represents 85% of our total spend among regular suppliers. Implementation of business ethics throughout the

value chain will continue in 2017 and beyond. As part of this, sustainability is today an integral part of our regular customer dialogues.

We have been a signatory of the United Nations Global Compact (UNGC) principles for human and labour rights, anti-corruption and environment, since 2010, and are committed to continue supporting the UNGC. In 2016, we also initiated a new CR materiality analysis together with our main stakeholders, with the aim to renew our CR long-term plan for the current strategy period (2017-2020).

IT MARKET IN THE NORDICS

We at Tieto envision a future in which information is the biggest driver of continuously increasing societal and economic value. We seek a pivotal role in this change providing customers with new opportunities to renew their businesses and co-create future innovations.

In 2016, the overall IT services market grew by around 2% in the Nordic countries.

Given the developments in our market environment, we can be pleased that for the full year our total revenues grew by 2% and IT services grew by over 4%. We were also able to continue on the path towards improved long-term profitability objective, with an underlying operating margin of over 10% in 2016.

Looking ahead, digitalization of customers business – with two-fold agenda to grow revenue through innovation and to reduce costs by improved efficiency – continues to drive IT market growth and in 2017, the market is estimated to grow by 2–3%. Emerging services are expected to experience double-digit growth and the decline in traditional services will continue.

Focusing on Nordic enterprises and the public sector, we seek to grow and further increase our market share in the Nordics. Growth will also be supported by international expansion of selected industry solutions that have proven to be effective in current markets.

Tieto aims to continue to drive shareholder returns above industry average as well as to maintain its positive financial development and attractive dividend policy. At the same time, the company is continuing its investments to support innovation and growth.

SEIZING OPPORTUNITIES TOGETHER

Our industry continues to change at a rapid pace, thus creating a platform for growth and innovation. We firmly believe in the power of openness and co-innovation, and in this ecosystem, Tieto has a unique opportunity to shape the future we live in.

I would like to warmly thank our customers, employees, partners and shareholders for another year of collaboration and progress.

I look forward to continuing the renewal of our customers' business and stepping up Tieto's growth and innovation agenda even further together with our constantly expanding ecosystem.

Kimmo Alkio
President and CEO

IT market drivers

Digitalization of customers' business continues to drive IT market growth. Customers aim to grow revenue through innovation and reduce costs by improved efficiency as well as to ensure long-term sustainability.

- **Emerging services** are gaining ground while traditional services, such as infrastructure services, are seen as a source of cost reductions.
- **Cloud** becomes the vital underpinning for digital transformation, and customers increasingly combine private and public clouds to enable business innovation and agility in a cost-efficient way.
- Solutions supporting **automated end-to-end application lifecycle management** are gaining ground. These solutions enable faster innovation speed and reduced cost and time for the process to launch new products and services.
- New technologies will enable a **new data-centric ecosystem** where individuals are provided with personalized experiences – in many cases, by new service providers utilizing automated service deliveries.
- In line with the trend of sustainability becoming the new normal, customers see digital solutions as an enabler and facilitator of long-term sustainability in operations. For example, IT solutions will continue to **reduce CO₂ emissions** through decreased energy consumption, material use or transportation.
- **Co-creation with partners and customers** is becoming more important in order to make the best use of the new technologies for our customers and to accelerate innovation. This trend is accelerated by increasing openness, as open APIs (application programming interface) and open data make collaborative innovation possible.

[Read more about the market around us.](#)

The IT market is changing fast, also posing risks related to the management of change. [Read more about risks](#) related to our business environment.

Our market position

MARKET POSITION IN IT SERVICES

- The size of IT services market comprising Finland, Sweden and Norway is ~ EUR 14 billion (IDC 2016)
- The leading market position in IT services in Finland
- Among the top 3 vendors in Sweden
- Among the top 7 players in Norway

Tieto's competitors in different customer industries, services and regions vary greatly. We have chosen to differentiate ourselves by combining our industry expertise and the best available technologies into solutions that best serve our clients in their specific business and market contexts.

Our major competitors include both international IT service providers and smaller niche players and geographically focused companies.

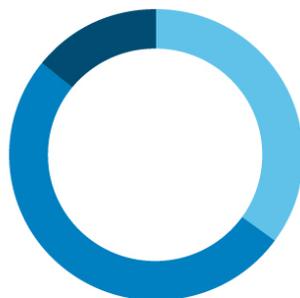
Most competitors provide a wide range of consulting, system integration and managed services. In industry solutions, there are multiple competitors.

PRODUCT DEVELOPMENT SERVICES MARKET

In R&D services for the telecom and semiconductor sector, Tieto is well recognized in Europe through its strong competence. Our well-established presence in the Nordic countries as well as Eastern Europe and Asia enables us to serve our customers flexibly and cost-efficiently.

In the R&D services, Tieto's competitors are mainly global companies.

Nordic IT services market*



- Finland 35%
- Sweden 51%
- Norway 14%

* incl. Tieto's core markets Finland, Sweden and Norway

We drive continuous stakeholder dialogue

Tieto wants to foster continuous collaboration and dialogue with all key stakeholders. At the end of 2016, a new materiality analysis was initiated to re-evaluate stakeholders' assessments of Tieto's sustainability impacts.

In general, the stakeholders with whom Tieto engages depend on the impact we have on the stakeholder and vice versa. Tieto also conducts stakeholder-mapping workshops to get a deeper understanding of stakeholder groups. Among the most prioritized stakeholders are employees, customers, investors and suppliers. Most stakeholder relations are managed throughout the organization. However, investor relations are centralized within the Group support functions. Similarly, supplier relations are mainly handled by Tieto's Procurement team.

Tieto's CR materiality analysis is conducted on regular basis together with stakeholders, and it identifies which sustainability aspects to address and report. At the end of 2016, a new materiality analysis was initiated to evaluate stakeholders' assessments of Tieto's sustainability impacts. The result will be implemented in our CR long-term plan 2017-2020.

Other types of dialogues, such as yearly surveys with customers and employees, also take place to learn more about stakeholders' specific experiences of Tieto as a company. The majority of issues and topics raised in dialogues during 2016 reflect well upon Tieto's business and our collaboration with stakeholders.

While customers are interested in the quality of products and services, innovation, and proactive interaction, employees have been interested in career opportunities, competence development and employee experience, to mention a few examples. Tieto's new strategy has also generated interest among stakeholders in 2016.

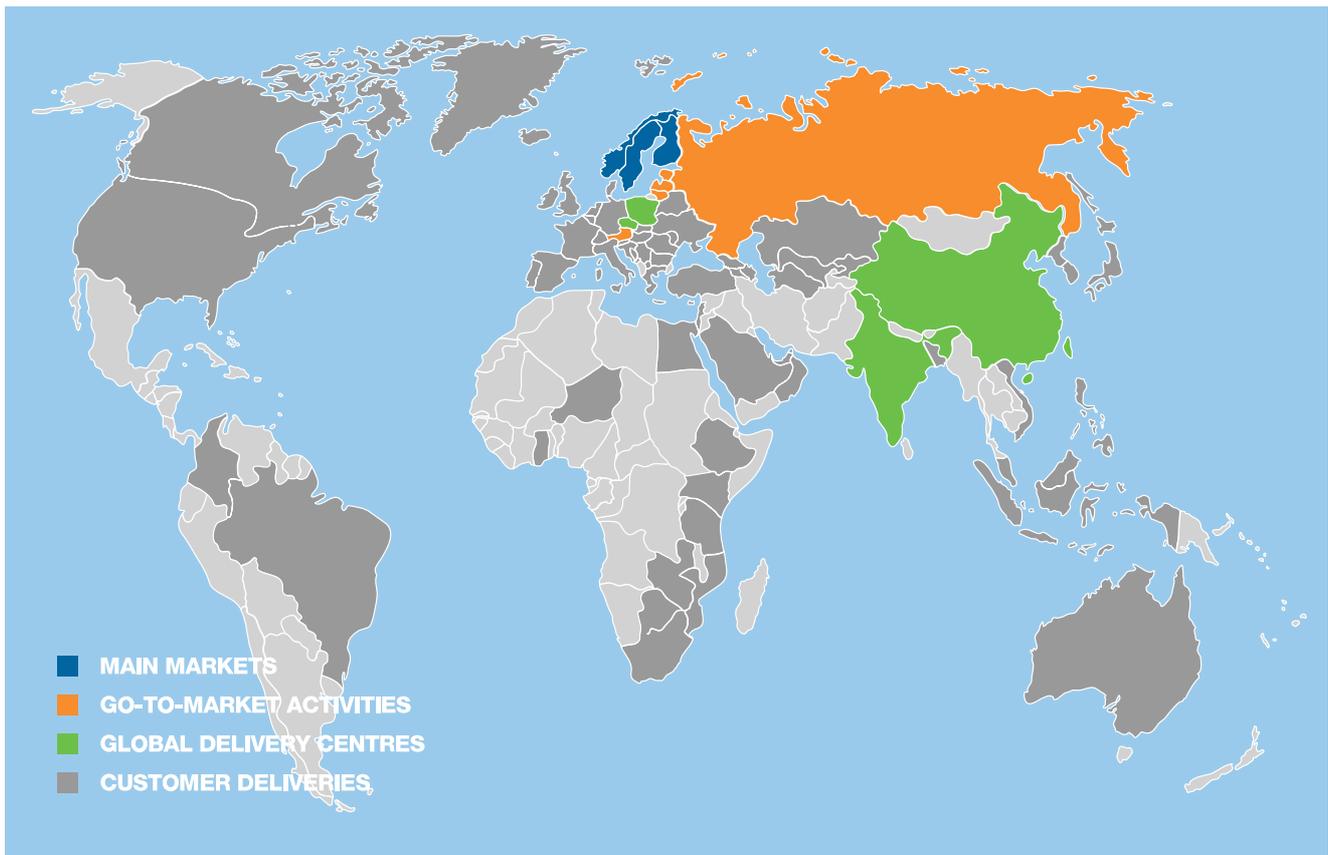
Our aim is to meet stakeholders' CR and sustainability requirements and needs, and to play an active role in our industry and society as a whole. During the past years, Tieto's customers have more and more addressed CR and sustainability as part of their evaluation of Tieto as an IT partner. Questionnaires and supplier requirements, covering compliance with the United Nations Global Compact as one example, are natural parts of these requests. CR communication with suppliers has also intensified as part of our Supplier Code of Conduct implementation and follow-up. CR communication with employees is related to Code of Conduct Policy compliance, as well as more general communication to raise awareness on CR and sustainability.

The table below presents Tieto's main stakeholders and how we engaged in 2016.

Stakeholders	Key issues raised	Type of interaction	Frequency of interaction	Actions regarding issues raised
Employees	<ul style="list-style-type: none"> • Career opportunities • Continuous competence and personal development • Healthy working environment and work-life balance • Job satisfaction • Equal and fair treatment, including compensation • Professional network, knowledge sharing and social media capabilities • Simplified processes and improved tools • Strategic alignment and trust in the future • Further focus on employee experience 	<ul style="list-style-type: none"> • Job openings and active staffing for projects • Development discussions, ongoing dialogue and feedback • Learning offering in Tieto Academy and other learning platformst • Employee engagement pulse surveys • Occupational healthcare and ergonomics • Co-operation with employee representatives/ unions • Tools and forums available for all employees, e.g. Social Intranet 	<ul style="list-style-type: none"> • Continuous advertising and sharing of internal opportunities • Continuous dialogue and feedback between manager and employee • Tieto wide employee survey (VOICE) every two years. Pulse surveys on more ongoing basis • Based on needs, ongoing work with the employee representatives • Annual salary reviews 	<ul style="list-style-type: none"> • Job rotation, management attention and support for career and competence development project assignments • Healthcare and consultation services, active monitoring and health checks • Support for sports and leisure activities • Social Intranet for active dialogue • Keilalahti new HQ project, activity based floors in Pune, India, and Ostrava, Czech Republic, for enhanced employee experience • Simplifying business processes and life in matrix • Workday, a tool to simplify employee processe, implemented
Customers	<ul style="list-style-type: none"> • Delivering on agreements and interacting proactively • More frequent collaboration and communication with customers and within Tieto at all levels • Bringing new insights and ideas and making proactive proposals to enhance customers' business and/or operations • Importance of business ethics 	<ul style="list-style-type: none"> • Joint planning and co-innovation • Strategic, tactical and operational customer experience measurement • Customer magazines, seminars, exhibitions, workshops • Audits • Governance models • Materiality analyses 	<ul style="list-style-type: none"> • Customer experience measurement: strategic annually, tactical every third month, operational monthly, or biannually in case of stable services • Materiality analysis: annually • Operative activities on a continuous basis, including governance 	<ul style="list-style-type: none"> • Improvement of quality in deliveries • Improvement of collaboration and communication with customers and within Tieto at all levels • Providing all employees with a real-time view of customer experience • Enhancing customer-centric culture and ways of working
Investors and shareholders	<ul style="list-style-type: none"> • New strategy and financial targets highlighting innovation and growth in addition to continued financial performance and attractive dividend yield • Investments in offerings and new talent driving future growth 	<ul style="list-style-type: none"> • Investor meetings and group presentations • Conference calls 	<ul style="list-style-type: none"> • IR participated in around 100 investor meetings and group presentations during 2016 • Capital Markets Day in May 2016 	<ul style="list-style-type: none"> • Investments driving renewal of services increased to EUR 75 million • Net recruitments to address the IT industry change accelerated, net recruitments up to 800 • Base dividend increased and additional dividend proposed
Suppliers	<ul style="list-style-type: none"> • Solid business ethics • Respect for fundamental human and labour rights • Mutually beneficial business relationships including aligned practices and agreed targets • Work against corruption in all its forms 	<ul style="list-style-type: none"> • Continuous dialogue about services and contracts (Sourcing) • Bilateral supplier relationship and performance management programs including governance • Supplier Sustainability Program (including self-assessments) with significant suppliers • Supplier Code of Conduct Survey with regular suppliers • Active communication of Procurement policy and practices internally in Tieto 	<ul style="list-style-type: none"> • Key suppliers: on a continuous basis either on monthly, quarterly, or annual basis depending on urgency and priority • Other suppliers: regular interaction and structured governance take place whenever the situation so requires • Internal communication regularly according Procurement Communication plan 	<ul style="list-style-type: none"> • Actions jointly agreed and depending on the specific programme objectives and relationship • E.g. collaboration on cost optimization, delivery and quality management, joint innovation, risk management and sustainability issues • Actions to improve supplier's quality, performance or service triggered by complaints or alleged incidents (from stakeholder or third party)
Business partners and ecosystems	<ul style="list-style-type: none"> • Identifying and engaging with emerging partners and ecosystems to accelerate customer value • Building the best possible solutions for our customers together with our partners • Aligning business practices 	<ul style="list-style-type: none"> • Regular meetings on strategic, tactical and operational level, with commercial and technical perspectives, take place to ensure the best possible value to customers 	<ul style="list-style-type: none"> • Bi-annual, quarterly and on continuous basis 	<ul style="list-style-type: none"> • Actions jointly agreed and depending on the specific partnership or ecosystem • E.g. collaboration in developing services, products and business models.
Potential employees & students	<ul style="list-style-type: none"> • Collaboration and job opportunities • Joint projects with universities and student associations • Internships / traineeships • Corporate responsibility 	<ul style="list-style-type: none"> • Career days • Student fairs • Development projects and research collaboration • Internships / traineeships 	<ul style="list-style-type: none"> • Career days and student fairs a few times a year • Pan-Nordic Generation-T trainee programme annually • Seasonal e.g. summer trainees 	<ul style="list-style-type: none"> • Theses work, seminars and lectures, internships and recruitment • Active engagement in social media channels
Former employees & colleagues	<ul style="list-style-type: none"> • Professional networking 	<ul style="list-style-type: none"> • Social media networks • Alumni network 	<ul style="list-style-type: none"> • Continuous and based on needs 	<ul style="list-style-type: none"> • Tieto company site on LinkedIn and Facebook • Local alumni groups and events

Tieto markets

Tieto has global capabilities and a strong presence where its customers need it. The company has operations in around 20 countries, with the Nordics – Finland, Sweden and Norway – as our main market. The size of these IT services markets was ~ EUR 14 billion in 2016 (IDC).



<p>FINLAND</p> <ul style="list-style-type: none"> • Tieto's core market • Sales EUR 674 million • Personnel 3 550 • Market position: #1 	<p>SWEDEN</p> <ul style="list-style-type: none"> • Tieto's core market • Sales EUR 566 million • Personnel 2 700 • Market position: Among top 3 	<p>NORWAY</p> <ul style="list-style-type: none"> • Tieto's core market • Sales EUR 159 million • Personnel 640 • Market position: Among top 7
<p>GO-TO-MARKET ACTIVITIES</p> <p>Austria, Estonia, Latvia, Lithuania and Russia</p>	<p>GLOBAL DELIVERY CENTRES</p> <p>The Czech Republic - Ostrava Poland - Szczecin, Wroclaw India - Pune China - Chengdu</p>	<p>CUSTOMER DELIVERIES</p> <p>Customer deliveries in over 90 countries in six continents</p>

Strategy

Tieto envisions a future in which data is the biggest driver of individual, societal and economic value. The company seeks a pivotal role in this change, and announced a new strategy in 2016 to pursue the opportunities of the future data-driven world.

With solid execution of its prior strategy, Tieto laid a strong foundation for accelerating innovation and growth in the Nordics and beyond in a time where each organization has the need and opportunity to both drive efficiency and co-innovate new services and business models.

With its new strategy for 2016–2020, Tieto aims to become its customers' first choice in their business renewal as the leading Nordic software and services company. The strategy builds upon a strong foundation of customer insight, own industry specific software, growth investments, full life-cycle services from advisory to managed services, industrialized service delivery and proven execution capability.

Tieto has made the following strategic choices:

1. SERVICES TO ACCELERATE CUSTOMER VALUE

Focus on services to help its customers succeed in their dual agenda - simultaneously drive efficiency in their current operations and innovate new businesses and business models. Tieto aims to

- play a larger role in customers' value chain and support their growth, by investing into pre-packaged industry solutions. These solutions build on the competitive industry specific software, deep industry insights and partnerships – **industry solutions**.
- help customers drive higher speed and efficiency in their business processes, through modernizing their technology landscape, industrialized service delivery and as a service business models – **technology services and modernization**.
- co-create new solutions and innovate data-driven business models with customers and partners – **new data-driven businesses**.

2. NORDIC LEADERSHIP AND INTERNATIONAL EXPANSION

Focusing on Nordic enterprises and the public sector, Tieto seeks to further increase its market share in the Nordics. In parallel, Tieto accelerates international expansion of selected industry solutions that are proven in current markets. Large-scale expansion to adjacent markets is considered long term.

3. OPENNESS AND CO-INNOVATION

Tieto invests in work practices and technologies to actively co-innovate with partners, customers and enable global talent networks. This will ensure a faster time to market for solutions, increase development opportunities for employees and agile access to global talent and competencies.

Tieto strategy 2016–2020

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



The strategy will be implemented in phases, and the focus in 2016 was to accelerate capabilities in Sweden along with the selected industry solutions international expansion. During 2016, Tieto also realigned its organizational structures to the renewed strategy and choices. The strategy execution focus for 2017/2018 will be on

driving innovation through accelerating and commercializing data-driven businesses and to operationalize open talent and innovation ecosystems as well as scaling chosen industry solutions internationally. Towards the end of the strategy period larger scale market expansion will be evaluated.

We implement the strategy in phases



Read more about the 2016 highlights.

Operating model

Tieto realigned its structures and operating model to ensure effective implementation of the renewed strategy and to become customers' first choice for business renewal.

The new structure, operational from 1 July 2016, comprises of two main elements - industry groups and service lines.

Industry groups are the main go-to-market interface and service lines focus on customer experience and value through the services they bring to market.

We align our structure with the strategic choices



Industry groups represent Tieto's go-to-market and interface to customers. They aim to maximize Tieto's market share and customer experience in an industry, mobilizing all the assets and competencies of Tieto and partners.

There are three industry groups serving customers in the respective industry vertical.

1. **Financial Services** – serving all banking, insurance, capital markets and other financial institutions.
2. **Public, Healthcare and Welfare** – serving all central/regional/local governmental authorities and public and private healthcare, social and educational institutions.
3. **Industrial and Consumer Services** – serving customers in manufacturing, natural resources, retail, telecom, media, energy and utilities sectors.

Service lines focus on maximizing Tieto's market share and customer experience related to the services they bring to the market. There are four Service Lines:

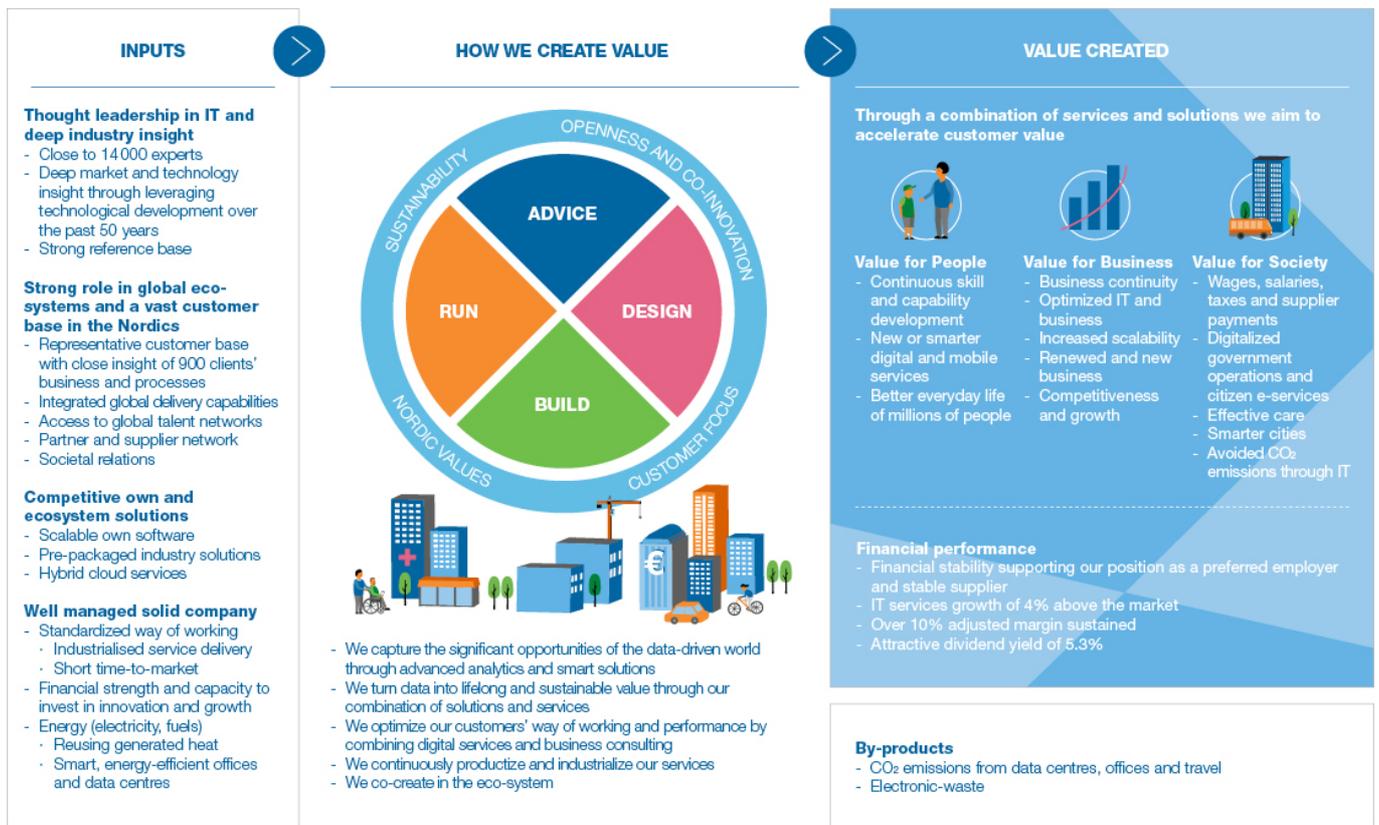
1. **Business Consulting and Implementation:** Business advisory and related implementation services to customers enabling their business renewal. These consulting and implementation services are highly industry specific and hence are organized in each industry forming a virtual service line at Tieto.
2. **Industry Solutions:** Industry specific pre-packaged solutions building on own and third party software and system integration capabilities. Considering that the solutions are highly industry specific, they are organized in each industry forming another virtual service line at Tieto.
3. **Technology Services and Modernization (TSM):** All the managed services, both applications and infrastructure are managed through this service line.
4. **Product Development Services:** High-end R&D services with focus on telecom, expanding to new domains.

Data-driven businesses are organized as a start-up with minimal organizational dependency with other businesses, and reported as part of the Industry Solutions service line.

Service lines form the main external reporting segment.

Creating value for life

In a rapidly changing world, where digitalisation plays a major role for business performance, every bit of information can be used to provide new and sustainable value. Tieto's value creation is based on our strategic aim: to become our customers' first choice for business renewal as the leading Nordic software and services company.



TIETO'S OPERATIONS CREATE VALUE FOR STAKEHOLDERS

The main role of Tieto as a software and IT services company is to help our customers renew their business and IT through digitalization. Tieto's role varies from advisory and the design of services to building and running systems and solutions. We look at the world from our customers' perspectives and aim to offer the best services and solutions from our full portfolio. This enables our customers to focus on their core business and create value in their respective domains.

Through the high standards in customer focus, openness and innovation, sustainability and our Nordic approach towards people management, Tieto is able to increase customer value and accelerate innovation. Tieto aims to capture the significant opportunities of the data-driven world and turn them into lifelong and sustainable value for people, business and society:

- Through smart technology, digital and mobile services, Tieto enables better everyday life for millions of people.
- Through optimizing business and IT, our customers can benefit from increased scalability and business continuity, while ensuring competitiveness and growth.
- Through innovative solutions, Tieto helps create smarter cities, effective care and efficient digital government operations, creating value for the whole society.

In addition, Tieto is committed to creating shareholder value for its owners, as well as playing a significant role in society as an employer and taxpayer.

TOWARDS INTEGRATED REPORTING

Tieto's Annual Report aims to provide an overall picture of Tieto's ability to create value.

In 2016, Tieto decided to take the first step towards using the International <IR> Framework as part of its annual reporting. The development towards integrated reporting commenced with a project examining the factors that affect value creation. Management views on value creation were gathered in a series of interviews. As a result of the process, Tieto's first integrated Annual Report was published in March 2017.

Read more about how we created value in the section [Highlights 2016](#).

Our approach to sustainability

Tieto is convinced that the long-term success of the company requires a business model that takes into account corporate responsibility (CR) and sustainability as a natural part of the daily business operations, including services and solutions provided to customers.

Tieto supports the leading global sustainability principles and complies with the requirements of many non-governmental organizations (NGOs) and industry standards. These multi-stakeholder initiatives guide us in our daily work.

- We have been a signatory of the UN Global Compact principles for environmental care, human rights, worker's rights and anti-corruption since 2010.
- We comply with the OECD Guidelines for Multinational Enterprises.
- We have engaged with the Global Reporting Initiative (GRI) since 2011 (Organizational Stakeholder 2011-2015, Gold Community Member 2016). Every year, we report non-financial information (externally assured) in accordance with the core option of the GRI G4 Reporting Guidelines.

As our new corporate purpose - Creating value for life - indicates, Tieto aims to play an active role in sustainable development for society, business and people.

- We are a member of FIBS non-profit corporate responsibility network in Finland.
- We are a member of NMC The Swedish Association for Sustainable Business.
- We are a member of the United Nations Nordic Network.

As a result of our sustainability performance, Tieto is included in the OMX GES Sustainability Finland Index. In addition, due to taking coordinated actions on climate change issues, Tieto was included in CDP's [Climate change report 2016 – Nordic edition](#) receiving scoring level B. According to [Ecovadis](#), providing supplier sustainability ratings for global supply chains, Tieto Corporation (Group) was in the top 2% of suppliers assessed in all categories in 2016. In the area 'Environment', Tieto was in the top 1% of suppliers assessed in the category 'Computer programming, consultancy and related activities'. Based on the Ecovadis CR rating, Tieto was granted a Gold recognition level.

Sustainability long-term plan

We recognize that our sustainability impacts occur throughout the value chain, and focus our corporate responsibility (CR) work around three long-term objectives – minimize environmental impact, be an ethical forerunner, and create value for all stakeholders.

As a company, we are convinced that our long-term success is connected to playing an active role in sustainable development. This requires a business model that takes into account social and environmental aspects, covering business operations, partners and suppliers, as well as services and solutions. Therefore, sustainability is a natural part of Tieto's daily business operations and integrated into our value chain.

CR LONG-TERM PLAN SUPPORTING SUSTAINABLE DEVELOPMENT

CR demands from customers have intensified during the past years. For many of our customers, compliance with the United Nations Global Compact is a minimum-level requirement. To meet stakeholder requirements and expectations we engage in open dialogue about sustainability. Our aim is to integrate sustainability from policy as well as practice perspectives.

Our long-term CR objectives are to lower the environmental impacts of the company as well as our customers and supply chain, to be an ethical forerunner in the global society, and to create value to all stakeholders.

Our current CR long-term plan is based on the CR materiality analysis conducted together with stakeholders in 2013-2014. This plan also comprises the elements of the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises.

At the end of 2016, we started a new materiality analysis together with our stakeholders for the renewal of our CR long-term plan and targets for the current strategy period. In addition to reviewing stakeholder expectations, new CR initiatives and compliance requirements will also be taken into account. Among other things, this new plan will reflect Tieto's contribution to the United Nations Sustainable Development Goals.

The following table summarizes our current CR targets for prioritized CR areas during the strategy period 2013-2016.

Minimize environmental impact

CR aspect	Long-term target (2014-2016) ¹	Result 2016 (2015)
Energy consumption	Reduce total indirect energy consumption by 3.5% annually	-6% (-9%)
Use of materials and chemicals	Reduce paper consumption by 5% annually	-34% (-8%)
Waste management	Only partners accepting Supplier Code of Conduct Rule used for e-waste recycling (relation of e-waste partners)	74% (40%)

¹ To be renewed 2017

Be an ethical forerunner in society

CR aspect	Long-term target (2014-2016) ¹	Result 2016 (2015)
Business ethics	No breaches of Code of Conduct	0 (0)
	100% of employees trained on Code of Conduct and Anti-corruption annually	86% (73%)
Procurement and supply chain	100% of suppliers serving Tieto on regular basis to adhere to Supplier Code of Conduct Rule ²	49% ³ (31%)
	Zero violations of Supplier Code of Conduct Rule of contracts	0 (0)
Employee health and wellbeing	100% of employees (minimum 95%) to have energy above work related demand	91% (93%)

¹ To be renewed 2017

² Target by 2017

³ Representing 85% (81%) of our total spend among regular suppliers

Create value for stakeholders

CR aspect	Long-term target (2014-2016) ¹	Result 2016 (2015)
Customer experience	Customer Experience Index 8.2 by 2020 ² (scale 1-10)	7.64 (7.54)
Quality of products and services	ISO 9001 certification based on business needs (% of employees)	77% (73%)
	ISO 27001 certification based on business needs (% of employees)	48% (48%)
	All sites >50 employees to be certified with ISO 14001 (% of employees)	92% (82%)
	ISO non-conformities to be closed according to the requirements	Goal met (Goal met)
Financial performance	IT services revenue growth above the market (CAGR) ²	IT services' sales growth of 4%. IT services market estimated to have grown by 2%.
	10% EBIT margin as a long-term objective ²	9.4% (8.6%)
	Adjusted ³ margin sustainably over 10%	10.2% (10.3%)
	Dividend increasing annually in absolute terms (min. 50% of net results) ²	Proposed dividend up 5% to EUR 1.15 (1.10). Extra dividend of EUR 0.22 also proposed. Dividend yield 5.3%, payout ratio 94%, including extra dividend.
	Net debt/EBITDA 1.5 as an upper limit in the long-run ²	0.6 (0.1)

¹ To be renewed 2017

² Ambition 2020

³ Adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items

MINIMIZING ENVIRONMENTAL IMPACT

Tieto recognizes that climate change is a global concern, which needs to be addressed by all enterprises and organizations. Already in 2015, Tieto actively expressed its support for the COP 21 Conference in Paris (21st Conference of the Parties to the United Nations Framework Convention on Climate Change), and the results thereof, through CDP.

The management of our environmental impacts is mainly focusing on energy consumption (electricity, heating and cooling) for running data centres and offices, on business travel, and use of paper and other consumables. Hence, to us minimizing environmental impact means reducing energy consumption, increasing energy efficiency, replacing business travel with online conferencing options, and minimizing printing and consumables.

The bigger opportunity, however, lies in reducing emissions in other industries through innovative IT solutions and services. According to [the Global eSustainability Initiative Smarter 2030](#) report, ICT can enable a 20% reduction of global CO_{2e} (CO₂ equivalent) emissions by 2030, thus holding emissions at 2015 levels. Tieto is committed to increasing the environmental friendliness of our data centres, and implementing solutions that improve customers' sustainability as well as in society at large.

BEING AN ETHICAL FORERUNNER

Being an ethical forerunner in the global society means showing a good example as a corporate citizen across operating countries. The European Union's Anti-Corruption Report concludes that corruption continues to be a challenge in Europe, and that the situation varies from one member state to another. In recent years, some Nordic companies have suffered from corruption cases too. The European Union has launched an ICT-sector guide on implementing the UN Guiding Principles on Business and Human Rights. To us, it means focusing on human rights, throughout our supply chain.

Tieto's approach to business ethics is not only compliance-based, but is intended to create a culture based on transparency and openness. We call it an Open Source Culture.

CREATING VALUE FOR STAKEHOLDERS

Creating value for stakeholders touches upon Tieto's key stakeholder groups, customers, employees and investors, as well as society as a

whole. Our aim is to create sustainable value for all stakeholders.

By delivering sustainable IT services and solutions to enterprises and society, Tieto helps to improve economic, societal, as well as environmental conditions in the world. At the same time the company's profitability can be strengthened, which is crucial for our long-term success as an innovator, employer and taxpayer, to mention a few examples.

CR RISKS AND OPPORTUNITIES

To address CR related risks and opportunities, Tieto strives to integrate CR impacts at the core of our business, and to include more CR elements in business processes and systems. We have identified four main risks related to CR. All four are connected to some of the highest priority CR aspects identified in the latest materiality analysis (2013-2014).

Climate change concerns all of us – people, organizations and enterprises, and society. Tieto strives to mitigate climate change related risks via active environmental management through our Environmental Management System, and by lowering customers' emissions with sustainable IT solutions.

Tieto also recognizes that the company's **supply chain** poses potential risks in terms of human rights and labour rights. Supply chain risks are mainly mitigated via Supplier Code of Conduct Rule implementation, supplier management and continuous assessments. In addition, by increasing understanding of supply chain related impacts Tieto believes it's possible to improve the conditions of human rights as well as labour rights together with suppliers. In this context, it is imperative to recognize and act upon the differences between the cultures in the Nordics and in other Tieto countries.

Corruption is another potential CR risk, not only for Tieto but for enterprises and society at large. According to Transparency International's [Corruption Perception Index 2016](#), measuring public sector corruption, 69 per cent of the 176 countries scored below 50, on a scale from 0 (perceived to be highly corrupt) to 100 (perceived to be very clean). This year more countries declined in the index than improved, showing the need for urgent action.

The majority of Tieto's business operations are located in countries that may be considered to be cleaner from corruption based on Transparency International's measuring. However, Tieto recognizes that we may be exposed to corruption risks related to procurement and sales, especially in Eastern

Europe and Asia. We strive to mitigate these risks via Code of Conduct and Anti-Corruption Rule implementation, communication with suppliers, and training of sales personnel and partners.

The fourth CR risk area touches upon **employee health risks**. Tieto recognizes that today's operating environment with rapidly changing competence needs, work content and ways of working, might impact the psychosocial wellbeing of individual employees. Employee health risks are mitigated through our pro-active approach, line manager attention and follow-up, and communication. Tieto strives to offer employees a work environment which supports psychosocial wellbeing. Our Open Source Culture, where the employee experience has become a vital part, is one important element in this work. We also strive to offer a flexible and mobile work environment supporting a work-life balance.

As an IT services provider, we are convinced the biggest CR opportunities for Tieto relate to the positive sustainability impacts of our IT services and solutions, and to our role in creating a society where responsible and sustainable business is the norm. We have measured the sustainability impacts of IT since 2010 by calculating the emission reductions from our own digital transaction services and other digital services replacing paper. Tieto is committed to continuing the development of sustainable IT solutions.

Materiality analysis

Based upon analysis of the company's impact on society, and stakeholders' assessment of Tieto, the CR aspects with the highest priority are business ethics, customer experience, and procurement and supply chain. In the latter part of 2016, Tieto initiated a new materiality analysis for the strategy period 2017-2020.

While Tieto's material sustainability aspects are reviewed on an annual basis, the aim is to maintain the materiality analysis and the CR long-term plan throughout the company's strategy period. Tieto has concluded that no significant changes from the previous reporting period took place in the scope and aspect boundaries. Our current materiality analysis was conducted in 2013-2014, and is presented below. The CR aspects included have provided the basis for the sustainability disclosures and presentation of the CR long-term plan in this report. If not otherwise stated, aspects are material for the whole Tieto Corporation, and aspect boundaries outside the organization are Tieto's operating countries.

The materiality analysis 2013-2014 was conducted in line with GRI G4 requirements. Approximately 260 people from different geographical regions participated in an open crowdsourcing arranged by Tieto, and expressed their views on the company's impact on society. Participants represented employees, customers, investors and media, among others. Tieto also organized internal workshops together with the CR steering group and Leadership Team to assess the company's own impact. As a last step, the list of prioritized aspects was evaluated once again by external stakeholders to reassure the validity of the materiality graph. More information about this materiality analysis is available in Tieto's Corporate Responsibility Report 2013.

In 2015, Tieto's CR steering group decided to slightly adjust the materiality graph by leaving out three CR aspects, which represented more regular corporate governance or CR management issues.

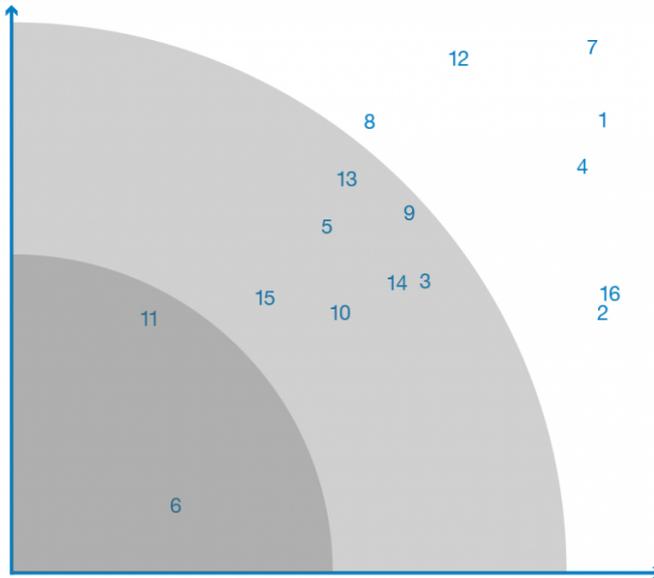
These aspects were: Corporate Governance, Environmental Management Systems and Certification, and Transparency and Openness. All of the topics are still covered in this report, partly due to GRI standard disclosure requirements.

At the end of 2016, Tieto initiated a new materiality analysis based on GRI G4 requirements. The stakeholder engagement activities included a CR material aspect survey for employees, partners and suppliers. In addition, selected customers were met for a dialogue on sustainability and important focus areas. Furthermore, an open survey as well as a Twitter chat was organized for the general public. Tieto will also gather input from its investors. The results will be implemented in our CR long-term plan 2017-2020.

Tieto believes that open and transparent dialogue with stakeholders is the best way to find out our real impact as a corporate citizen. In addition to conducting separate CR materiality assessments, the company strives to integrate CR as a natural part of any dialogue with customers and other stakeholders.

Materiality results

Influence on stakeholder assessment and decisions



Significance of economic, environmental and social impacts

- 1 Customer experience
- 2 Quality of products and services
- 3 Information security and data privacy
- 4 Financial performance
- 5 Sustainable IT
- 6 Social engagement
- 7 Business ethics
- 8 Energy consumptions
- 9 Waste management
- 10 Greenhouse gas emissions
- 11 Use of materials and chemicals
- 12 Procurement and supply chain
- 13 Diversity and equal opportunities
- 14 Learning and talent development
- 15 Employee relations
- 16 Employee health and wellbeing

Material aspects and boundaries

Material aspects	Aspect boundary
1. Quality and Customer Experience <ul style="list-style-type: none"> • Customer Experience • Quality of products and services • Information security and data privacy 	Customers, owners, employees
2. Creating value for our stakeholders <ul style="list-style-type: none"> • Financial performance • Sustainable IT • Social engagement 	Customers, owners, employees, all suppliers, partners and alliances, society
3. Business Ethics <ul style="list-style-type: none"> • Business ethics 	Customers, owners, employees, all suppliers, partners and alliances, society
4. Greener Operations <ul style="list-style-type: none"> • Energy consumption • Waste management • Greenhouse gas emissions • Use of materials and chemicals 	Customers, owners, employees, all suppliers, partners and alliances, society
5. Sustainable Supply Chain <ul style="list-style-type: none"> • Procurement and supply chain 	Customers, owners, all suppliers, partners and alliances, society
6. Our People <ul style="list-style-type: none"> • Diversity and equal opportunities • Learning and talent development • Employee relations • Employee health and wellbeing 	Customers, employees, owners and society

Managing Corporate Responsibility

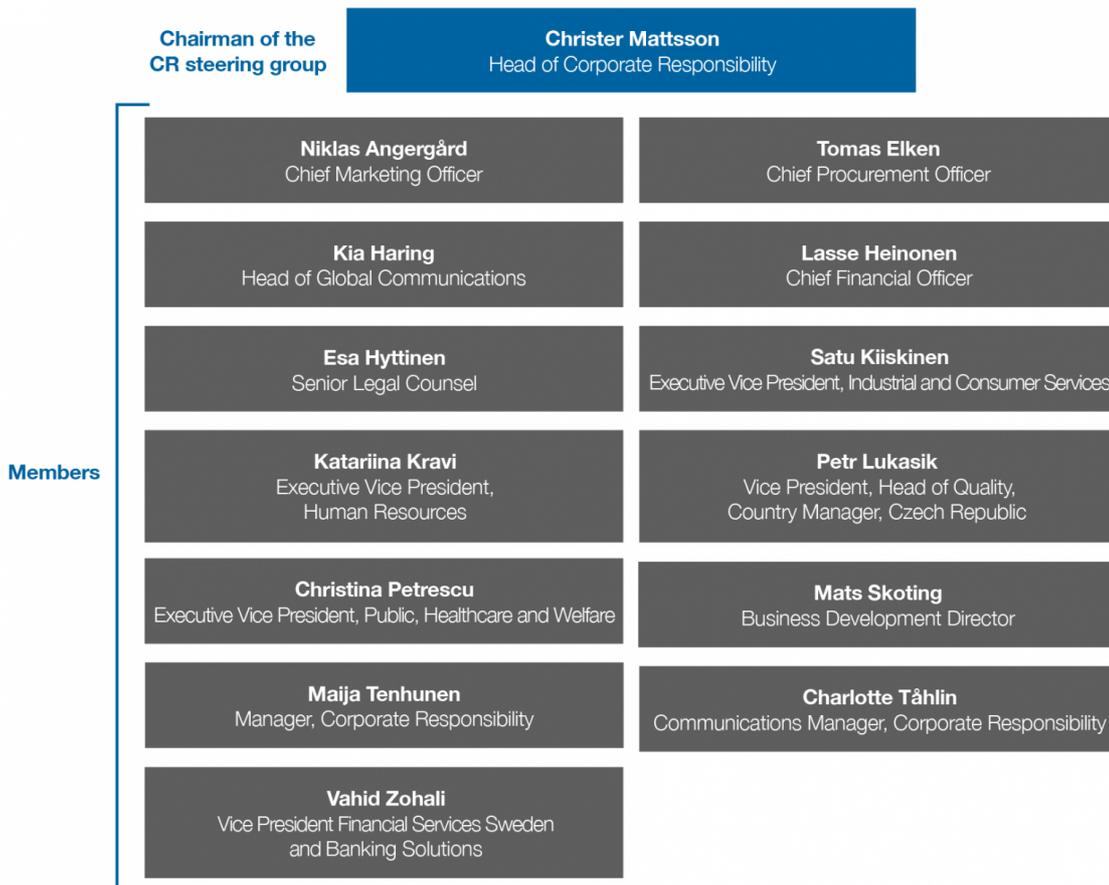
Sustainable value chains are growing in importance for our stakeholders, requiring Corporate Responsibility (CR) to be embedded throughout the organization and supply chain. Governance and compliance, processes and tools, as well as organization are all important elements to enable CR as an integrated part of daily business operations.

CR STEERING GROUP LEADING THE WAY ON CR

Tieto's CR work is led by the company's CR steering group. The CR steering group advises the Leadership Team and Board of Directors on the CR area, and approves the Sustainability section of Tieto's Annual Review. The CR steering group represents different functions and units of Tieto, ensuring the voices of internal and external stakeholders are taken into account.

During 2016, the CR steering group continued implementing the CR long-term plan 2014–2016, which has been focused around three long-term goals: minimizing environmental impact, creating value for stakeholders, and being an ethical forerunner in society. The steering group also decided to run a new material CR aspect update together with Tieto's stakeholders.

Tieto corporate responsibility steering group, on 31 Dec 2016:



During 2016, the CR steering group decided to strengthen governance of CR in the company. Two new governance bodies were established – the Sustainability Areas steering group and the Environmental Managers steering group. The purpose is to ensure aligned implementation of strategic as well as operative CR and sustainability issues.

On a daily basis, the CR activities are managed by a CR team. This team is led by the Head of CR, Christer Mattsson, who is also the chairman of the CR steering group. The Head of CR owns the CR policies and processes, and reports to the company's CFO, Lasse Heinonen.

The management of specific CR aspects, as defined in Tieto's materiality analysis, is handled by appointed aspect owners. These owners are responsible for setting goals, implementing and reporting on aspect KPI performance. High-priority CR goals are presented in the CR long-term plan, which is approved by the Leadership Team in cooperation with the Board of Directors. Management of specific CR areas is presented in more detail in the respective section of this report.

POLICIES AND RULES GIVING STRATEGIC DIRECTION AND PRACTICAL GUIDANCE

Tieto's ethical values are summarized in the [Tieto Code of Conduct policy](#), which applies to all of Tieto's employees as well as any party contributing to the company's services, products and other business activities. It is based on the United Nations Global Compact principles regarding human rights, labour rights, anti-corruption and the environment; and the OECD Guidelines for Multinational Enterprises.

To clarify the ethical guidelines applying to suppliers Tieto has a separate [Supplier Code of Conduct Rule](#), which is also based on the United Nations Global Compact and OECD Guidelines for Multinational Enterprises. This rule is implemented in all new supplier contracts with regular suppliers. [The Anti-corruption Rule](#) provides practical guidelines on how to evaluate and avoid unethical behaviour. Additionally, Tieto's employees are expected to adhere to the Competition Law Compliance Rule. Tieto also has an [Environmental Rule](#) which outlines the precautionary approach to environmental management at Tieto and in the value chain. This rule is compliant with ISO 14001 requirements.

The Code of Conduct policy and its rules are owned by our Head of Corporate Responsibility and coordinated by our CR function. Managers are responsible for ensuring that the content and the

spirit of the CR policy and rules are communicated, understood and acted upon within their respective organizations. Tieto also has several other policies and rules supporting the management of specific CR aspects. Policies and rules are reviewed on a yearly basis, as part of the company's compliance programme.

IMPLEMENTING SUSTAINABLE BUSINESS PRACTICES IN DAILY BUSINESS OPERATIONS

To help implement CR in daily business operations Tieto has developed a Corporate Responsibility Management Process, which is included in our Tieto Way business system. This process utilizes best practices from the United Nations Global Compact Management Model and the GRI G4 guideline. The tool enables clear linkages of process and documents to other business processes. Among other things, the Corporate Responsibility Management Process formally presents the role of a CR aspect owner.

To support the management of environmental work, we have an Environmental Management System (EMS), which is ISO 14001 compliant. The EMS consist of processes, competences, governance and organization, communication and information, and tools. Implementation is secured through ISO 14001 certification.

Our EMS process, offering a role-based view, is integrated into our Corporate Responsibility management process. It is also integrated into our Tieto Way business system, thus making it possible to establish clear process links to other processes. Furthermore, there is a linkage between the EMS process and audit activities. A responsive user interface makes it possible to access the EMS from any device.

Our Code of Conduct and Anti-corruption e-learning supports implementation of CR practices among employees. Tieto also has an Environmental e-learning supporting Environmental Management System implementation and ISO 14001 certifications.

We believe sustainability concerns the whole company, and encourage our employees to discuss and promote the positive sustainability impacts that digitalization can bring to customers. CR presentation materials are a regular part of the Tieto's sales materials. These materials, including background facts, help sales teams to learn about CR and answer customers' CR requests. Naturally, the CR team and aspect owners actively support the sales teams.

Tieto's approach to CR and sustainability is mirrored through our company values, which have been developed in co-operation with employees: We work together.

We care for our people and customers. We are committed to quality. We learn and grow.

Policies and Rules supporting management of CR aspects, 31 December 2016:

Aspect	Policy/Rule
Customer experience	Quality Policy
Quality of products and services	Quality Policy
Information security and data privacy	Security Policy, Privacy Policy, Information Classification Rule, Data Transfer Rule
Financial performance	Financial Handbook
Sustainable IT	Environmental Rule
Social engagement	Code of Conduct Policy
Business ethics	Code of Conduct Policy, Anti-corruption Rule, Supplier Code of Conduct Rule, Environmental Rule, Competition Law Compliance Rule
Energy consumption	Environmental Rule
Waste management	Environmental Rule
Greenhouse gas emissions	Environmental Rule
Use of materials and chemicals	Environmental Rule
Procurement and supply chain	Procurement Policy, Supplier Code of Conduct Rule
Diversity and equal opportunities	HR Policy
Learning and talent development	HR Policy
Employee relations	HR Policy
Employee health and wellbeing	HR Policy, Occupational Health and Safety Policy

Business ethics

In the global business context, the importance of business ethics is continuously growing. To answer customers' sharpened requirements, Tieto is putting emphasis on implementing its responsible business practices throughout the value chain. Our Code of Conduct training is mandatory for all employees on an annual basis.

Tieto as a company, including the Board of Directors and top management, has zero tolerance to unethical business behaviour, and sees implementation of ethical values and work practices as a vital part of the company's corporate responsibility. In addition to adhering to local legislation in operating countries, such as the UK Bribery Act and US Foreign Corrupt Practices Act, Tieto's ethical values are outlined in the company-wide Code of Conduct Policy and related Rules, which apply to all stakeholders.

The focus on business ethics among Tieto's customers has increased during the past years, especially related to corruption, gifts and hospitality. During 2016, Tieto put increased efforts into highlighting the differences between customers' ethical business practices and Tieto's own among its sales and delivery teams.

Internal communication on the Code of Conduct Policy and Anti-corruption Rule was also strengthened during the year. Among the topics highlighted were fraud and conflicts of interest. Code of Conduct and Anti-corruption training effectiveness was improved through better reporting and follow-up of e-learning statistics, making it easier for managers to track e-learning completion rates among employees.

Tieto also initiated an on-boarding programme with the purpose of ensuring sufficient controls with customers, suppliers or any other third party to achieve necessary screening and due diligence. Our aim is to digitalize this process.

A compliance management system was established to better track recurring tasks and development items. These tasks include annual reviews of policies and rules, compliance risk analyses, knowledge sharing and escalations being handled.

POLICIES AND RULES GOVERNING BUSINESS ETHICS

Tieto's Code of Conduct Policy defines the company's human rights and workplace practices regarding non-discrimination, equal opportunities and a safe working environment, among many other things. It also specifies the business practices regarding, for instance, conflicts of interest, gifts and bribes, and the safeguarding of corporate assets. In addition, the policy states that Tieto does not take political stances, nor give financial or in-kind contributions to political parties or institutions.

To highlight specific sections of the Code of Conduct Policy, Tieto has separate rules providing more detailed guidance. One example is the Supplier Code of Conduct Rule, which is implemented in all new supplier contracts with regular suppliers.

Another example is the Anti-Corruption Rule. Tieto recognizes that corruption is still a major ethical problem in society globally, and needs to be addressed by all enterprises and organizations. The Anti-corruption Rule provides practical guidelines on how to avoid unethical behaviour, and advises employees on how to evaluate different types of situations one may encounter at work. The rule is tailored for Tieto's type of business, and applies to all employees in all countries of operation.

Tieto's Competition Law Compliance Rule provides guidance for employees to assess what kind of behaviour is considered appropriate when interacting with other companies on the market, and to recognize when to seek the advice of our Legal function.

In a rapidly changing and competitive business environment, conflicts of interest is an area which needs to be carefully addressed by all companies and organizations. At Tieto, this issue is addressed in the Code of Conduct Policy as well as the Operative Decision Making and Authority Policy, which describes the overall operative decision-making rules and authorities in the company. Tieto also applies segregation of duties, where one person cannot approve activities in which this person is involved.

Tieto's Operative Decision Making and Authority Policy also clarifies the distribution of assets such as philanthropic donations. At Tieto, these are authorized by the Board of Directors.

IMPLEMENTING ETHICAL BUSINESS PRACTICES IN DAILY BUSINESS OPERATIONS

In addition to accepting the Code of Conduct when joining the company, Tieto's employees are expected to refresh their knowledge on the content of the Code of Conduct on a yearly basis by taking the Code of Conduct and Anti-corruption e-learning course. This e-learning uses practical examples tailored for Tieto. Real-life cases help to recognize situations where employees must assess and make decisions based on the Code of Conduct.

“ 86% of employees trained in the Code of Conduct Policy and Anti-corruption Rule in 2016.

The increased focus on Code of Conduct Policy training generated good results in 2016. Tieto aims at 100% e-learning coverage on a yearly basis. By the end of 2016, 86% (73%) of employees had been trained in the Code of Conduct Policy and Anti-corruption Rule.

MONITORING AND FOLLOW-UP OF UNETHICAL BEHAVIOUR

Tieto's approach to unethical behaviour is embedded in our proactive awareness campaigns, continuous monitoring, and follow-up processes. Tieto's risk management approach comprises a risk map for higher-level management, including the Board of Directors. The risk categories are compliance, financial, operational, project and

strategic. To identify and validate risks of unethical behaviour, Tieto conducts internal as well as external audits when required.

Internal audits are conducted by the Internal Audit function according to the annual plan based on risks found. The aim is to ensure the company complies with the laws, regulations, and customer agreements in focus, as well as policies and guidelines, in all operations. The Internal Audit Policy outlines the internal audit's objectives, intentions, directions, responsibilities, and possible consequences in terms of risk control, auditing, expediency, and ethics. The policy covers governance, risk management, and business processes, and applies to all employees.

“ No Code of Conduct breaches in 2016.

Some internal investigations are also initiated by whistle-blowing. Tieto's whistle-blowing process allows anonymous and confidential reporting on violations of the Code of Conduct, related rules, or any unethical behaviour to the General Counsel of the company. The process is designed to ensure that persons reporting violations will not be subject to any retaliation. Failure to act in compliance with the Code of Conduct can result in appropriate disciplinary actions.

External financial audits are conducted by an external party and vary between full scope and statutory, depending on the size of business operations and specific needs. Audits include, among other things, testing of transactions as well as assessment of possible risks of corruption. The scope of the testing may cover risk based audit assignments to evaluate the efficiency of the risk controls in place. No findings of misconduct were discovered in the financial audits in 2016.

As part of Tieto's zero tolerance to unethical behaviour, the company has a target of zero breaches of the Code of Conduct Policy. For 2016, no breaches of the Code of Conduct Policy took place.

Internal whistle-blowing escalations in 2016 generated five internal audits in four different countries in five sites, altogether covering approximately 26% of employees. These audits included analysis of risks of corruption and bribery, diversion, conflict of interest, related party action, disbursement, and suspected false invoicing and

skimming. However, the results of these audits concluded there were no confirmed incidents of corruption. The cases did not cause any harm or loss for Tieto as an internal control system was in place. The result from the audits show that a full implementation of Tieto Procurement processes is important in order to reduce the risk for conflict of interest and fraud.

No confirmed discrimination cases were found in 2016.

Going forward, Tieto will evaluate the learnings made during the year from reviews of customers' supplier codes of conduct and liability rules. We also plan to further communicate about these among customer and delivery teams. In addition, the aim is to review and update Tieto's Code of Conduct Policy together with its related rules and e-learning. Furthermore, a gap analysis related to the ISO 37001 anti-bribery management system will be conducted in order to set plans for further actions.

Quality and customer experience

To enhance customer experience our quality focus embraces products and services as well as operations, and is an integral part of our daily work.

HIGHLIGHTS 2016:

- Customer Experience Index increased to 7.64 (7.54).
- Tieto ranked among the top Finnish companies in the State of Customer Experience Management in Finland study.
- 92% of operations covered by our ISO 14001 based Environmental Management System.
- A three-year cyber security plan was established and will be implemented in 2017.

Customer experience

During the past years, Tieto has been focusing on developing customer experience and creating a customer-centric culture throughout the company. The aim is to have real-time, accurate and actionable customer insights made available to all employees. After building a solid foundation, the focus in 2016 was in implementing the Customer Experience strategy across Tieto's businesses.

Tieto aims at creating a more customer-centric world, where everyone and every interaction counts, and there is seamless and mutually rewarding collaboration between Tieto and its customers.

“ Tieto ranked among the top Finnish companies in a Customer Experience Management study.

2016 was largely characterised by the implementation of Tieto's Customer Experience (CX) strategy. This strategy covers CX related target setting, implementing customer experience measurements, monitoring the measurement results at all organizational levels, and taking corrective and preventive actions in case of weak results. Tieto's investments in this area were acknowledged in 2016, when Tieto gained sixth position in a [State of Customer Experience Management study](#) conducted among 74 Finnish companies.

Customer experience performance is monitored through an annual Customer eXperience Survey (CXS), and communicated through the Customer eXperience Index (CXI, previously CEI) score and the Relationship Net Promoter Score (rNPS)®. This strategic-level measurement covers the company's strategic and key customers, and aims to evaluate to what extent customers believe Tieto is delivering its strategy and value proposition.

One of the key actions during the year was the deployment of relationship experience measurement by redesigning the content of the CXS survey. The survey was implemented in a new platform for gaining real-time, accurate customer insights and measuring customer experience - the Enterprise Feedback Management (EFM) tool. The tool was rolled out within Tieto for hundreds of users. During the year, a clear correlation between customer experience performance and revenue growth was observed, confirming that purchase behaviour is strongly linked to customer experience.

The company also initiated an Accelerate Customer Experience (ACE) programme, focusing on improving delivery and design quality, perceived value, and customer centricity within Tieto. Another important milestone was to establish facilitated customer-specific actions, such as coaching sessions and joint workshops for improved customer experience.

STRONG PERFORMANCE IN PEOPLE AND BEHAVIOUR RELATED CUSTOMER INTERACTION

Our Quality Policy declares Tieto's commitment to continuously improving ways of working through frequent dialogue with customers and acting upon their feedback.

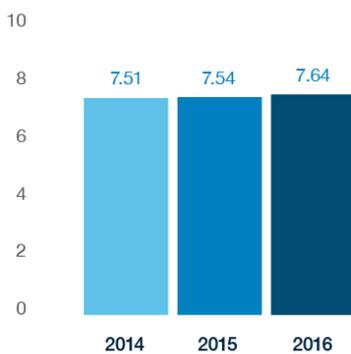
“ Taking a step towards real-time customer experience measurement through implementation of a re-designed Customer eXperience Survey.

To support the strategic ambition of becoming customers' first choice for business renewal by 2020, Tieto aims to seek for customer advocacy by manifesting superior customer experience and a customer-centric culture that creates value for all stakeholders. To achieve this, we are targeting a Customer eXperience Index (CXI) of 8.20 and a Relationship Net Promoter Score (rNPS) of +40 by 2020.

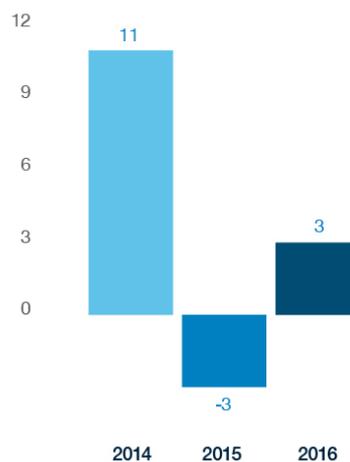
In 2016, Tieto achieved a CXI score of 7.64 (2015: 7.54). More than 650 customer representatives participated in the annual survey, giving their feedback in face-to-face interviews. During 2016, Tieto made significant efforts to improve both quality and delivery capability, which resulted in a Relationship Net Promoter Score of +3 (-3).

The results show that Tieto performs strongly in people- and behaviour-related factors, such as showing respect and commitment, being an open and honest communicator, and meeting corporate responsibility expectations. On the other hand, in addition to improving delivery quality, room for improvement remains in our proactivity to propose new insights and ideas that enhance customers' business, as well as value creation.

Customer experience index



Relationship Net Promoter Score®



The roadmap for 2017 includes deploying customer journey and touchpoint experience measurements, which will be applied to solution implementation, usage and maintenance, and supplier sourcing related to the customer journey. In addition, we will continue the ACE programme and facilitated customer-specific actions, e.g. customer team coaching, to succeed together with our customers.

Customer experience measurement processes in Tieto are owned and managed by the Customer Experience and Insights unit. Managers at all levels are responsible for implementing the process with their customers. CX-related targets are also included in all employees' performance goals.

© Net Promoter is a registered trademark and Net Promoter Score (NPS) is a trademark of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Quality of products and services

Tieto's quality focus embraces the whole organization. The work is guided by business and customer needs, and evaluated against high international standards. In 2016, Tieto continued expanding its certification coverage and developing its quality roadmap to be able to create increasing business value and service experience for customers.

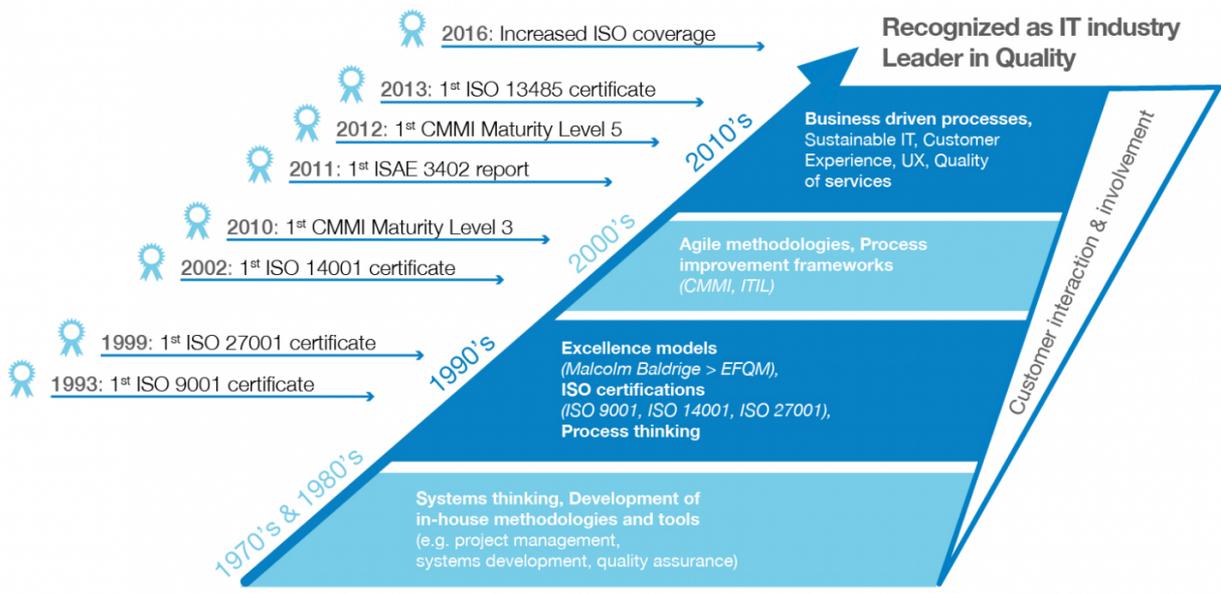
The cornerstones of ensuring good quality of products and services include establishing good governance of processes, constant measuring of performance, and adherence to relevant regulatory systems and industry standards. Tieto's Quality Policy applies to all operations and employees, and states the benefits of maintaining high quality, the company's objectives regarding quality, and how Tieto understands customers' experiences of perceived quality.

“ 92% of Tieto's operations covered by our ISO 14001 based Environmental Management System.

Tieto's quality system, Tieto Way, contains the most important business processes: Offering Development, Sales and Customer Relationship Management, Project Delivery, and Continuous Service Delivery. These processes constitute the main vehicle for strategy realization through Tieto's operating model, including the roles, tools and competences. Together, they form end-to-end business processes needed for developing, selling and delivering products and services to customers. The management aspects of quality, risk, security and compliance are embedded into each business process.

The Tieto Way is continuously benchmarked and compliant with many international standards and frameworks. In addition to the ISO 14001 environmental management, ISO 9001 quality management, and ISO 27001 information security management standards, the Tieto Way complies with ITIL (IT Service Management), PMBOK (Project Management Book of Knowledge), and CMMI (Capability Maturity Model Integration). Furthermore, compliance is ensured with selected industry standards, such as ISO 13485 for medical devices, PCI-DSS for payment card data security, PA-DSS for payment application data security, and ISAE 3402 standard on Assurance Engagements.

Tieto Quality Journey



PROGRESS IN ISO CERTIFICATION COVERAGE

In 2016, Tieto made progress in extending the ISO certification coverage. We completed a certification roadmap based on business needs, and added new sites to our ISO certified network. For example, both Sweden and Norway completed country-level certification audits for the environmental management standard ISO 14001, which is increasingly a requirement from customers.

A total of 56 audits were planned and completed in 2016 for the maintenance of existing ISO certificates and certificate extensions. Currently, 77% of Tieto's operations are covered with ISO 9001 and 48% with ISO 27001 certifications, hence meeting the target to maintain ISO certificates based on business needs. In addition, 92% of our operations are covered with ISO 14001 certifications, hence reaching the target to have all sites with more than 50 employees covered with this ISO standard. Coverage is measured in terms of number of employees.

Our aim is to have all non-conformities to be closed as per the requirements. In 2016, our external certification partner, DNV GL, reported ten major non-conformities. These were in the areas of information security objectives not defined, management reviews not planned/conducted, identification of security requirements of interested parties not done, risk analysis for customer requirements, and planning/conducting internal audits. Five non-conformities had a closure period in 2016 and have been closed. Five have a closure period in 2017. Tieto has done root cause analysis and identified corrective - preventive actions which were accepted by DNV. Implementation of corrective actions is in progress and these will be closed in the requested time period.

In these audits, DNV GL also identified a number of strengths across Tieto, such as high corporate culture related to environmental management, monitoring of energy consumption and focus on energy savings, regular monitoring of customer feedback at management and operational levels, improved customer survey methods and coverage, and systematic risk management within projects

In 2017, Tieto will continue to improve on quality aspects to provide business value for customers, and other customer experience improvements. The aim is also to maintain existing ISO certificates and add new certificates or sites based on business and customer requirements. Furthermore, we will initiate activities and audits to transition all existing ISO 9001 and 14001 certificates to the 2015 revised versions.

Information security and data privacy

Today's increasingly complex IT landscape sets new demands on information security and data privacy arrangements for protecting personal and business-critical information. Cyber security resilience is a fundamental part of Tieto's business, and vital for maintaining our customers' trust. To be ahead of development, we are constantly updating our processes and training our employees.

As one of the largest IT services providers in Northern Europe, Tieto recognizes that any disturbances in IT infrastructure or IT systems involving customers could have an immediate impact on a large number of users, whether in their professional or private lives. This is why information and cyber security must be part of any process, delivery or work we do. Our security arrangements aim at predicting, preventing, responding and detecting different types of attacks and incidents.

Tieto's Information Security Management System (ISMS) covers our information security rules and organization, as well as provides the mandatory information regarding security processes. In general, information security deals with confidentiality, integrity, and availability of IT services and data.

“ Three-year cyber security plan established.

To comply with the European data privacy and information security regulations (GDPR) and local laws, Tieto's solutions, services and internal processes are continuously monitored. Furthermore, we strive to increase information security awareness among employees by e.g. organizing e-learning courses, conferences and training programmes. For instance, the e-learning modules were updated in 2016 to better cater for the coming GDPR regulations.

During 2016, Tieto also conducted a cyber security maturity model assessment and related benchmarking. The findings served as a basis for devising a three-year cyber security plan. The aim is to improve overall cyber resilience for Tieto, and the plan will be reviewed and updated on an annual basis. Implementation will start in 2017.

Risk management, business continuity, awareness and well-functioning security services are all important building blocks for establishing good cyber security resilience. At Tieto, Group-level responsibility for security and data privacy arrangements is managed by our Chief Security Officer and Chief Risk Officer, who heads the central risk management function. Internal and external audits are also regularly followed up in the Tieto Leadership Team and Board of Directors' Audit Risk Committee.

Tieto's Security Policy and Privacy Policy help to manage information security and data privacy throughout all business operations. Tieto also has an Information Classification Rule to assure that the confidentiality, integrity, and availability of information assets are protected and that the information is handled, stored and disposed correctly. In addition, the Data Transfer Rule specifies the terms and conditions for transferring any personal data of Tieto's customers outside the EU and EEA areas, the European Commission standard contractual clauses are used as contractual safeguards when transferring personal data from EU to non-EU countries.

For unexpected incidents, Tieto has a Major Incident Management (MIM) process in place. It supports efficient management of incidents and aims at minimizing the impact on customers and end-users by restoring business-critical IT services and maintaining constant communication with affected stakeholders. In addition, Tieto's Security MIM (sMIM) process is used for security related incidents, defining communication and mitigation actions based on sensitivity and criticality of the incident. This model will also be used in relation to the GDPR requirements of timely breach notification.

During 2016, no substantiated complaints regarding breaches of customer privacy and losses of customer data were reported.

In addition to maintaining our active dialogue on cyber security issues with stakeholders on a societal level, Tieto will continue its fervent work with the topics internally. Specific actions include continuing the implementation of the GDPR programme, as well as organizing a special Security Awareness programme as part of our three-year cyber security plan.

“ 48% of employees certified by ISO 27001.”

At the end of 2016, 48 per cent of our employees were certified by the ISO 27001 Information security management standard, meeting both business needs and customer requirements. Tieto also conducts annual ISAE 3402 audits, which describe and document the adequate internal controls for information security and financial reporting. This audit is carried out for data centres and infrastructure services.

Society and stakeholders

Our aim is to play an active role in society and create value for all our stakeholders – economically, socially and environmentally.

HIGHLIGHTS 2016:

- Our operating margin improved to 9.4%, thus close to our 10% long-term objective.
- CO₂ emission avoidance for customers, enabled through the use of our digital transaction services, reached 228 ktons CO₂ (based on our own calculations).
- We made four philanthropic donations - My Dream Now, Sweden, Lila Poonawalla Foundation, India, Identity Foundation, India, and Finland 100 Programme, Finland.
- We helped accelerate settlement of health insurance claims for underprivileged in India through pro bono work for Uplift Mutuals.

Read how we engage with stakeholders in [the Stakeholder dialogue](#) section

Economic impact

For us, economic responsibility means striving to ensure that we are profitable in order to create long-term sustainable value for our stakeholders and contribute to a global and sustainable economy. In 2016, our operating margin improved to 9.4%, thus close to our 10% long-term objective.

Tieto's financial objectives are to grow IT services revenue above the market (CAGR), achieve a 10% reported operating margin (EBIT), increase dividends annually in absolute terms, and to have a net debt/EBITDA of 1.5 as an upper limit in the long run.

In 2016, IT services sales growth was over 4%, supported by acquisitions. It is estimated that the IT services market relevant to Tieto grew by 2%. Full-year operating profit (EBIT) amounted to EUR 140.8 (125.2) million, representing a margin of 9.4% (8.6). Tieto's profitability is relatively sensitive to the level of restructuring measures. Operating margin adjusted for items including restructuring costs remained above 10% at 10.2%. The proposed dividend is up by 5% to EUR 1.15 (1.10) and additionally, an extra dividend of EUR 0.22 is proposed. Dividend yield is 5.3% and payout ratio 94%, including extra dividend.

Tieto's capital structure remained strong and net debt/EBITDA was 0.6. The proposal to pay extra dividend addresses our objective to achieve a level close to 1. Tieto will maintain its capacity to invest in future growth both organically and inorganically after dividends.

Tieto's economic contribution to stakeholders is summarized in the graph below. It illustrates our economic impact on customers, employees, suppliers, governments and society at large.

Economic value for different stakeholders, EUR million

	2016	2015	2014
Revenues	1 514.5	1 492.5	1 541.8
Operating costs	493.8	484.7	534.8
Employee wages and benefits	827.1	828.3	846.0
Payments to providers of funds	104.3	100.6	70.3
Payments to governments ¹⁾	22.7	22.3	20.7
Community investments	0.1	0.1	0.1
Economic value retained	66.5	56.5	69.9

¹⁾ of which

	2016	2015	2014
Finland	4.2	6.0	4.4
Sweden	10.0	7.5	7.1
Norway	0.7	1.5	0.8
Czech Republic	2.1	2.4	2.2
India	4.6	1.1	1.7
Other	1.1	3.8	4.5
Total	22.7	22.3	20.7

Our tax strategic aim is to comply with all jurisdictions local tax legislation and other obligatory rules. Tieto is committed to operating in a responsible way and to complying with ethically acceptable principles in all of our activities. This means that Tieto fulfils all reporting requirements and pays all legally imposed direct, indirect and other taxes in those countries where the Group has operations. Furthermore, Tieto shall always operate with full co-operation with the authorities and aim to disclose all information that is needed to determine the tax consequences.

During the year, Tieto received financial assistance from local governments in some of our operating countries. In Austria, we received EUR 0.1 million from the government for research funding.

In Sweden, we received EUR 0.1 million from Vinnova, the Swedish Innovation Agency, for the international research project within Eureka and EUR 0.1 million for employment support. In Finland, we received EUR 0.7 million from TEKES, the Finnish Funding Agency for Technology and Innovation to support digitalization and cloud services development in different industries as well as for product development purposes in our PDS unit. The government of the Czech Republic provided a grant of EUR 3.3 million to support economic development and employment. In addition, we have received tax relief and tax credits in some of our operating countries. In India, Tieto received a tax relief of EUR 1.9 million because of tax holiday. In Norway, we received a tax credit of EUR 0.3 million relating to a development project. Also in Lithuania and Singapore, minor tax relief was received.

Significant financial assistance received from government, EUR million

Austria	0.1
Sweden	0.2
Norway	0.3
Finland	0.7
India	1.9
Czech Republic	3.3
Total	6.5

For a full description of our financial performance, please read our [Financial Review 2016](#).

In Tieto, Group-level finance operations are handled by our Chief Financial Officer's (CFO) office. In addition, each Industry Group and Service Line has a dedicated Finance partner, who works closely with business and supports management in financial processes and reporting. Our shared service centre in Riga, Latvia, supports accounting and master data maintenance services to fulfill Group reporting and statutory reporting needs and requirements.

Tieto has a common accounting and reporting platform, Tieto ERP. Group consolidation and reporting are based on the reporting system, which facilitates common control requirements for all legal entities reporting to the Group.

Financial reporting consists of monthly performance reports, including all the key performance indicators, rolling forecasts and interim financial reports.

The correctness of Tieto's financial reporting, including interim and annual reports, and the compliance of financial reporting with regulatory requirements are ensured through our internal control practices. The Audit and Risk Committee of our Board of Directors has the oversight role in our external financial reporting.

Tieto's financial reports are regularly reviewed by the Leadership Team and the Board of Directors. The follow-up is based on a thorough comparison of the actual figures with the set objectives, forecasts and previous periods. If the figures deviate, the Leadership Team members are responsible for initiating corrective actions.

Our Financial Handbook includes internal financial information that is directed to people involved in the financial planning and reporting or working with finance matters. The information covers a broad spectrum from steering system to detailed timetables for reporting, as well as descriptions of reporting systems and financial guidelines.

Tieto's financial reporting follows the International Financial Reporting Standards (IFRS) as adopted by the European Union. As a listed company, we are compliant with the regulations of the NASDAQ Helsinki and Stockholm Stock Exchanges.

Sustainable IT

Tieto sees digitalization as a key driver for sustainable development. With our strong customer knowledge and experience, technology expertise, and ecosystem of innovation, we are committed to pursuing the opportunities of the data-driven world to create value for people, business and society.

Sustainable IT is a broad term describing the different dimensions of minimizing the environmental impact of IT - i.e. the manufacturing, use and disposal of IT over the lifecycle - as well as concepts or IT and technologies with a positive sustainability impact for people, business and society at large, such as cloud and IoT (Internet of Things).

The positive impacts of IT span over economic, social as well as environmental areas. In healthcare and welfare, digital solutions have opened totally new opportunities for patients as well as society at large. As one example, Tieto's next generation IT solution for social care and healthcare, Lifecare, aims for an unbroken chain, where information is seamlessly shared and available in the right place, at the right time, for the best possible care. This solution is used across the Nordics within home care, elderly care and dental care, to mention a few areas.

Tieto envisions a future in which information is the biggest driver of continuously increasing social, economic as well as environmental values. Data flowing between people, machines and environment can be gathered and turned into information, supporting smarter decisions and innovation. As one example, Tieto's Industrial Internet start-up is engaged in a long-term collaboration with HSB Living Lab, Sweden, to innovate IT solutions that enhance future living. More than 2 000 sensors have been installed in the living lab building, collecting data on everything from energy and water consumption to material behaviour and safety solutions in the homes - information which can be analyzed for making more sustainable housing decisions, for instance related to environmentally friendly washing solutions or smart refrigeration.

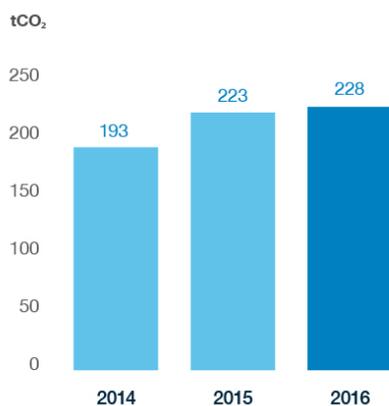
MEASURING THE SUSTAINABILITY IMPACTS OF IT

According to the [Global eSustainability Initiative Smarter 2030 report](#), ICT can enable a 20% reduction of global CO_{2e} (CO₂ equivalent) emissions by 2030, thus holding emissions at 2015 levels. The report also states that emissions avoided through the use of ICT are nearly ten times greater than the emissions generated by deploying it.

“ In 2016, the CO₂ emission avoidance for customers enabled through our services reached 228 ktons CO₂.

Tieto has measured the positive sustainability impacts of IT since 2010 by calculating the CO₂ emission avoidance enabled by the use of our digital transaction services and other identified services replacing paper. Based on our calculations, the CO₂ emission avoidance amounted to 228 ktons in 2016 (223) with these services alone. ¹

Avoided emissions (ktons CO₂)



¹⁾ The services include Ahjo Helsinki paperless decision making, B2B e-transaction replacing paper, bank contract changes or product openings, bank marketing campaign materials, bank secure mails, electronic account statements, secondary school applications, insurance policy documents, corporate reporting in pension, new customer applications and contracts.

Social engagement

As a corporate citizen we aim to engage in the societies where we operate. Every year we do philanthropic donations to support different sustainability needs. In 2016 (for 2017), three of the recipients were supporting education for children – our future. We will also engage in the Finland 100 programme, and the centenary of Finland's independence in 2017.

Based upon authorization of Tieto's Board of Directors, the recipients of Tieto's yearly philanthropic donations are systematically selected by Tieto's Corporate Responsibility (CR) steering group. The decision is confirmed by Tieto's Leadership Team. Selections are based on local community-needs assessments made in co-operation with the local business operations. Based on Tieto's approach, our donations are aligned with the business strategy and purpose – creating value for people, business and society – and have a close connection to local businesses and operating countries. Depending on local needs and assessments, Tieto strives to support social wellbeing as well as environmental protection. In addition, the philanthropic donations can be long-term programmes as well as short-term initiatives, such as disaster aid. Tieto also complies with applicable local laws on social engagement.

Apart from doing philanthropic donations, Tieto is also engaged in pro bono work. To facilitate the settlements of health insurance claims for underprivileged people, Tieto has developed and provided Uplift Mutuals, India, with a SaaS offering.

MY DREAM NOW HELPS CHILDREN PURSUE THEIR FUTURE DREAMS

My Dream Now is an organization in Sweden focusing on building a bridge between companies and schools with the aim of inspiring young students to fulfill their future dreams. In 2016, My Dream Now received one of Tieto's philanthropic donations.

Tieto has engaged in My Dream Now in different ways over several years. Tieto employees have volunteered as class coaches, among other things. In addition, students have participated in study visits and job shadowing at Tieto to inspire and increase their understanding of daily work life.

TIETO JOINS THE FINLAND 100 PROGRAMME IN 2017

Finland became an independent state on 6 December 1917 and will hence turn 100 years in 2017. Founded in 1968, Tieto has been part of almost half of the journey in building today's Finland. To participate in the centenary and celebration, Tieto has decided to support the Finland 100 Programme.

The centenary of Finland's independence will be the most significant commemorative year for this generation of Finns. The theme of the year is 'Together' and the programme is developed together with participants. Tieto will be supporting projects in line with the company's corporate purpose of creating value for life.

IDENTITY FOUNDATION HELPS UNDERPRIVILEGED CHILDREN

Founded in 2003, **Identity Foundation** is a charitable trust in Pune, India, working with underprivileged children. Tieto has supported Identity Foundation's Mobile Learning and Infotainment Centre (MLIC) buses since 2007. In 2016, Identity Foundation received one of Tieto's yearly philanthropic donations.

The MLIC programme revolves around the utilization of two mobile learning and infotainment buses. Here underprivileged children, such as street children, can get literacy as well as life skills education. The MLIC's also serve as information facilities by giving children an exposure to positive entertainment and providing useful information. In 2016, over 18 different MLIC activities or sub-programmes were conducted together with 24 partnering NGOs, reaching more than 6 100 children.

LILA POONAWALLA FOUNDATION EMPOWERS WOMEN TO PURSUE HIGHER EDUCATION

Lila Poonawalla Foundation (LPF) is an educational trust in India whose vision is to contribute to the empowerment of Indian women by supporting academically outstanding and financially deserving girls through scholarship to pursue higher education. In 2016, one philanthropic donation was made to Lila Poonawalla Foundation as part of Tieto's local engagement in India.

Since its inception in 1996, over 12 220 scholarships have been granted to 5 848 deserving girls. The foundation gives scholarships to the girls from Pune, Amaravati and Wardha district. LPF scholarships are merit-cum-need based scholarships. The highlight of the foundation is that it gives an outright grant to all the girls who are selected by the foundation trustees.

UPLIFT MUTUALS FACILITATES EASY ACCESS TO QUALITY HEALTH CARE

Uplift Mutuals is a local not for profit organization, which has emerged out of the need for access to quality health care at reasonable costs. Under Uplift Mutual's model, low-income families in the unorganized sector in India can share their health risks and get access to mutual micro insurance for financing their medical treatments and hospital visits. Besides health insurance, the organization also provides medical advice via telephone, and has even employed its own doctors who provide their services to patients free of charge.

Tieto has engaged with Uplift Mutuals since 2012. Based on pro bono work, Tieto has developed and provided Uplift Mutuals with a SaaS solution, Uttam, replacing the often time-consuming manual work needed to settle health insurance claims. With the help of the easy document uploading functionality, Uplift has been able to process claims in a matter of 48 hours, where the usual turnaround time is about 20-25 days.

In addition to easing the burden for low-income families to fund their health issues, Uttam also provides an easy-to-use process for expanding the micro insurance for health programmes to cover more communities. Furthermore, it has helped to reduce operational costs for Uplift Mutuals. Going forward, Tieto will help launch Uttam as a mobile solution, supporting Uplift's expansion to larger communities.

ME&MYCITY'S LEARNING CONCEPT FOSTERS STUDENTS EMPLOYABILITY SKILLS

Me&MyCity (Yrityskylä) is an award-winning Finnish education innovation and learning concept aimed at sixth-graders and ninth-graders, covering society, working life and entrepreneurship. In 2014, Me&MyCity was granted a philanthropic donation by Tieto covering a three-year engagement with this organization.

The Me & MyCity learning environment for sixth-graders is a miniature city where students work in a profession, and function as consumers and citizens as part of society. In Tieto's office, children can try out to be a project manager or sales manager, as well as a specialist who works on customer cases, for instance related to smart home innovations.

Greener operations

Tieto's Environmental Rule communicates our commitment to the United Nations Rio Declaration on Environment and Development. Our aim is to minimize our environmental impact throughout our value chain. We support the precautionary approach to environmental challenges, and apply the principles of continuous improvement.

HIGHLIGHTS 2016:

- Total reported CO₂ emissions decreased by 4% to 28 ktons CO₂ (29).
- Energy recycling solutions in data centres helped reduce reported CO₂ emissions by 2 516 tons CO₂ (2 148).
- Indirect energy consumption decreased by 6% (9%) compared to the previous year, reaching 103 587 (110 335) MWh.
- The share of e-waste partners accepting Tieto's Supplier Code of Conduct Rule increased to 74% (40%).
- Tieto's head office moved to a new location, Keilalahti, where sustainability has been integrated as a key element.

Greenhouse gas emissions

Tieto continuously examine ways to reduce the greenhouse gas emissions of our activities. Emissions are mainly generated by indirect energy consumption in data centres and offices and by employee travel.

Tieto's climate initiative focuses on how to increase energy efficiency in offices and data centres, and how to reduce business travel. The reporting of CO₂ emissions caused by indirect energy consumption has been expanded to cover both location and market based CO₂ emissions 2015-2016.

During 2016, total reported location based CO₂ emissions decreased by 4% to 28 ktons CO₂ (29). Scope 1 CO₂ emissions, generated by diesel consumption in data centres, increased by 12% to 0.1 ktons CO₂ (0.1).

At the same time, Scope 2 CO₂ emissions generated by electricity consumption, cooling and heating, decreased by 11% from 20 to 17 ktons CO₂. The Scope 2 calculations include energy fed back to district heating. Scope 3 CO₂ emissions increased by 12% to 11 ktons CO₂ (10) due to increased business travel during 2016.

Total reported market based CO₂ emissions also decreased by 4% to 34 ktons CO₂ (35). Market based Scope 2 emissions decreased from 26 to 23 ktons CO₂, also representing a decrease of 11%.

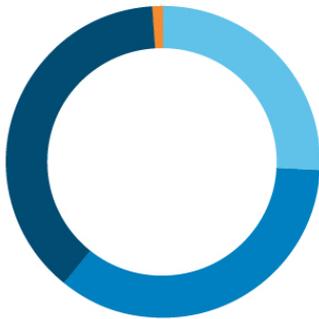
Emission class	Unit	2014	2015	2016	% change 2016-2015	% change 2016-2014
G4-EN3 Direct energy consumption						
Diesel	litres	51 595	38 356	43 097	12%	-16%
Total	litres	51 595	38 356	43 097	12%	-16%
Energy returned to district network*	kWh					
G4-EN3 Indirect energy consumption						
	kWh					
Electricity	kWh	100 476 049	93 009 445	86 693 438	-7%	-14%
Cooling	kWh	16 668 789	18 746 350	18 996 095	1%	14%
Heating	kWh	17 514 499	13 802 259	14 928 279	8%	-15%
Energy returned to district network*	kWh	-13 970 000	-15 223 000	-17 031 000	12%	22%
Total	kWh	120 689 337	110 335 053	103 586 811	-6%	-14%
G4-EN 15, 16 Total direct and indirect greenhousegas emissions						
	tCO2					
Electricity (location-based)	tCO2	16 492	15 114	13 069	-14%	-21%
Electricity (market-based)	tCO2		21 259	18 745	-12%	
Cooling	tCO2	3 742	4 194	4 050	-3%	8%
Heating	tCO2	3 259	2 472	2 790	13%	-14%
Diesel	tCO2	134	100	112	12%	-16%
Energy returned to district network	tCO2	-1 949	-2 148	-2 516	17%	29%
Total GHG Scope 1	tCO2	134	100	112	12%	-16%
Total GHG Scope 2 (location-based)	tCO2	21 544	19 633	17 393	-11%	-19%
Total GHG Scope 2 (market-based)	tCO2		25 778	23 070	-11%	
Total GHG Scope 1-2 (location-based)	tCO2	21 679	19 732	17 505	-11%	-19%
Total GHG Scope 1-2 (market-based)	tCO2		25 878	23 182	-10%	
G4-EN17 Other relevant indirect greenhouse gas emissions						
	tCO2					
Flights	tCO2	9 670	8 455	9 690	15%	0%
Own cars	tCO2	1 296	1 166	1 090	-7%	-16%
Total GHG scope 3	tCO2	10 966	9 621	10 780	12%	-2%
Total CO2 emissions (location-based)	tCO2	32 645	29 353	28 285	-4%	-13%
Total CO2 emissions (market-based)	tCO2		35 499	33 962	-4%	

As a whole, approximately 62% (70%) of reported CO₂ emissions in 2016 derived from energy consumption in business operations. While business travel represents only a small part of the company's purchases, it is still recognized as one of the key emission sources. In 2016, 38% (32%) of our reported CO₂ emissions related to employee travel.

To reduce greenhouse gas emissions caused by business operations, Tieto has set energy consumption targets, as well as travel cost targets. Activities related to energy consumption are presented in more detail in the Energy consumption text. Regarding travel costs, Tieto's goal was to keep travel costs flat in 2016. However, during the year travel costs increased by 6% (0.7%), mainly due to the increased number of employees, and increased business travel related to the introduction of a new corporate strategy and reorganization in 2016.

Tieto's Travel Rule requires a pre-approval step for employee travels, which helps to eliminate unnecessary travel. The company also encourages employees to use internal online conferencing options. These consist of a social and commercial media inspired workplace with digital communication and collaboration tools, such as integrated teleconferences, video conferences, chat, and functionalities to share digital content with others.

Sources of reported emissions (% from total tCO₂)



- Data center 26%
- Office 35%
- Travel 38%
- Laboratories 1%

Energy consumption

Active management of energy consumption is an important part of Tieto's climate change initiative and management of greenhouse gas emissions. The company's energy consumption is mainly related to indirect consumption of energy in offices and data centres. In addition, a small portion is related to the direct consumption of diesel in data centres.

Today's hyper-connected world is placing energy consumption high up on the agenda for the IT services industry as well as society as a whole. The amount of energy consumed by the world's data centres, storing information used by billions of people, is expected to increase significantly in the next decade. This means the ICT sector has an important role to play in driving energy efficiency measures.

Tieto's approach to energy consumption is outlined in the company's Environmental Rule. In line with this rule, Tieto strives to reduce direct and indirect energy consumption in data centres and offices through energy-efficient equipment, by switching off equipment and lights when not in use, and relocating to BREEAM or LEED certified buildings when upgrading facilities.

“ In 2016, indirect energy consumption decreased by 6%.

The yearly goal is to reduce indirect energy consumption in operations by 3.5% on the Group-level. In 2016, indirect energy consumption decreased by 6% (9%) compared to the previous year, reaching 103 587 (110 335) MWh. In offices, continuous energy saving measures, such as control and adjustments of lighting and air-conditioning in premises, are a natural part of Tieto's environmental work. In addition, consolidation and office space reduction are also impacting positively on overall energy consumption. In data centres, energy efficiency is mainly managed through consolidation and transformation, but also through optimization of cooling systems, all of which took place in 2016. The energy consumption data was also impacted by changes in the data collection

scope due to alignment with our environmental management system scope.¹⁾

Tieto's ISO 14001 based Environmental Management System plays an important role in meeting set energy consumption targets. Country site managers are responsible for following up on proper energy efficiency management, collecting energy data, and implementing energy-saving actions in their respective sites, as well as raising Tieto employees' environmental awareness, resulting in a wiser and hence lower energy consumption overall.

ENERGY EFFICIENCY A CORE CRITERIA IN TIETO'S NEW-GENERATION DATA CENTRES

Based on Tieto's data centre strategy the company is actively replacing old data centre facilities with new-generation data centres, where virtual servers and other energy efficient equipment is a core criteria. Tieto is using Power Usage Effectiveness (PUE) to measure the effective use of electricity in its data centres, and aims at getting the PUE as low as possible in all locations, or to close sites where PUE does not meet efficiency requirements

The transformation project, which was started in 2015, continued in 2016. The aim is to ramp down old servers, virtualize servers, and replace some systems with more energy efficient models. A project to close down an old data centre in Helsinki was also started. This project is expected to be completed during 2018.

During 2016, Tieto also implemented a number of general measures to increase energy efficiency in data centre operations, such as changing cooling systems in some locations. Another example is Tieto's new-generation data centre in Espoo, where the traditional battery based UPS system (Uninterrupted Power Supply) was replaced with a Rotary-UPS system, also helping to reduce harmful waste.

Tieto is convinced however that the smartest way of optimizing energy efficiency in data centres is by re-using excess heat from data centre servers. This solution has been implemented in Tieto's new-generation data centres in Espoo, Finland, and Stockholm, Sweden. The Espoo data centre is connected to the local district heating network. In 2016, this data centre was feeding back excess heat corresponding to 60% of the total energy use in the data centre. In 2016, Tieto as a whole managed to reuse 21% of total energy consumption.

OFFICES SUPPORTING PEOPLE AND ENVIRONMENT

In office premises, Tieto's Facilities team is working to ensure that office buildings are supporting employee experience as well as environmental requirements. Energy efficiency of a building has become an important new site selection criteria. In line with its facilities strategy, Tieto is continuously consolidating office space and switching to green buildings. The target is that 70% of employees will work in green facilities by 2020, i.e. facilities with, for instance, BREEAM or LEED certification. By the end of 2016, the ratio was 42% of employees.

In 2016, office consolidation took place in Finland. In addition, office space utilization was further optimized in Russia and Poland. Energy saving measures were also taken in some locations to optimize lighting and air-conditioning.

In Helsinki, Finland, Tieto's head office moved to a new location, [Keilalahti](#), at the end of the year. In this building, sensor technology combined with Industrial Internet solutions and data-driven analytics make it possible to collect, combine and analyze data from thousands of installed sensors. The information can be used in making sustainable decisions in facility maintenance. As one example, office space utilization can be optimized and hence energy consumption be lowered.

¹⁾ Read more in the 'About sustainability reporting' text

Waste and use of materials and chemicals

Tieto's environmental footprint is also related to waste and use of materials and chemicals in business operations. The waste category with most significant impact is electronic waste. During 2016, the share of e-waste partners accepting Tieto's Supplier Code of Conduct Rule increased from 40% to 74%.

Tieto's Environmental Rule states that a responsible way of conducting business operations includes recycling of obsolete office material and waste according to local recycling opportunities, and taking good care of environmentally harmful chemicals and materials. Recycling of e-waste should be handled according to best practices from the environmental and human rights points of view. Our Group-wide Environmental Management System (EMS) complies with the ISO 14001 standard and supports management of waste in daily business operations.

“ The share of e-waste partners accepting Tieto's Supplier Code of Conduct Rule increased to 74%.

Computers, mobile phones and other types of electronic equipment are all needed to develop IT products and services. The purpose of managing e-waste separately is to help mitigate the environmental footprint. Tieto recognizes that e-waste differs from municipal waste due to the risks of leakage of toxic materials, such as substances in computer batteries, but also due to the importance of recycling precious metals. In addition, e-waste handling may include human and labour rights issues. Local legislation defines the specific waste-management practices to be followed in each country. At Tieto, e-waste management is handled by the Facilities Management and ICT team.

Tieto's long-term goal is to have 100% of e-waste recycled by responsible partners. As part of ISO 14001 certification activities and Supplier Code of Conduct Rule implementation, the share of e-waste partners accepting our Supplier Code of Conduct Rule increased from 40% at the end of 2015 to 74% in 2016. The work to reach a full coverage will continue in 2017 together with our Procurement and ICT teams.

From a material use perspective, Tieto strives to use materials and chemicals responsibly. While the target for paper consumption is an annual reduction of 5% (measured in tons), the long-term aim is to support an organizational culture of a 100% paperless office through digitalization and electronic archiving. As one example, the company applies a 'Follow Me' printing feature to reduce the amount of unnecessary printing. In 2016, paper consumption decreased by 34% to 34 tons on corporate level. The majority of the change is due to an improvement in data collection quality, resulting in a more accurate data. In addition, paper saving activities such as e-invoicing, e-forms, e-receipts and e-sourcing reduced the consumption.

Our people

Tieto's Human Resources continued to support the company renewal in 2016. Employee experience has become a vital part of Tieto's Open Source Culture. The move to the new head office in Finland and decision to take a new Human Capital Management tool into use are examples of this development. Both took place in 2016 and are greatly driven by employee experience.

To facilitate execution of the new strategy and operating model, Tieto is fostering an Open Source Culture based on openness and transparency, where employees feel empowered and can influence their work and build an inspiring working environment. During 2016, this cultural aspiration expanded into covering the full employee experience.

One important element in building the employee experience is the development and renewal of the physical working environment, internal tools and practices. In November 2016, the first employees moved to Tieto's new head office in Keilalahti, Espoo, Finland – a highly collaborative and activity-based premises supporting different working modes with an overall aim to fuel interactions and innovation. The company's aim is to introduce similar empowering and engaging ways of working across Tieto's offices worldwide, enabling more mobile ways of working among other things. The Keilalahti building also applies Tieto's own Intelligent Building concept.

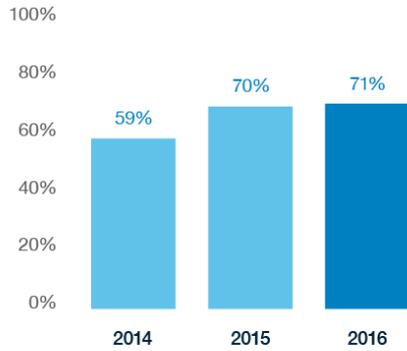
Collaboration and co-innovation throughout the ecosystem is an important part of Tieto's strategy execution. In 2016, Tieto initiated activity to start working on a platform-based resourcing option.

During the year, Tieto also started preparing for the digitalization of HR information and practices with the next generation Human Capital Management (HCM) platform – Workday. This cloud based solution was successfully launched in January 2017.

The aim is to simplify and unify HR processes from an end-user perspective. Workday provides employees and managers real-time access to all essential people data from one place, through any device at any time. Going forward, it will be possible to build analytics capability at Tieto HR, adding increased value to people as well as business.

Two strategy pulse surveys were conducted during the year, replacing the former yearly Voice survey for measuring employee engagement. These served as important checkpoints of employees' understanding, views and feelings about the new strategy and Tieto as an employer. Tieto also conducted several strategy live chats. These covered different topics and were webcasted to all employees through Tieto's intranet. Employees could participate in active discussions on the new strategy together with colleagues and management. The overall employee engagement score, measured in autumn 2016, reached 71%, which is slightly better than the year before.

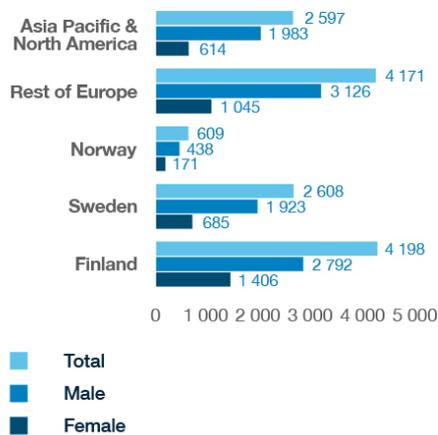
Employee engagement score



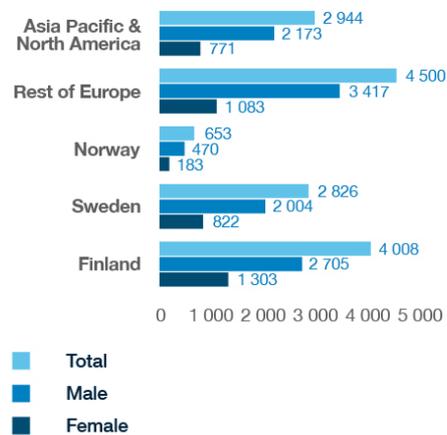
Workforce by region by gender, 2014



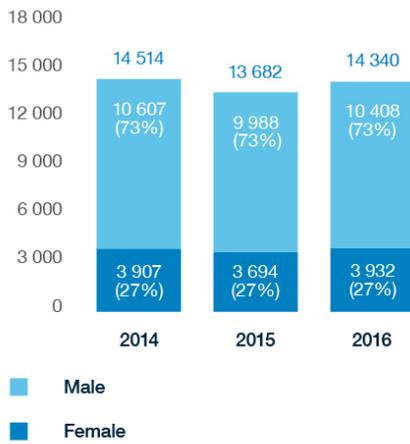
Workforce by region by gender, 2015



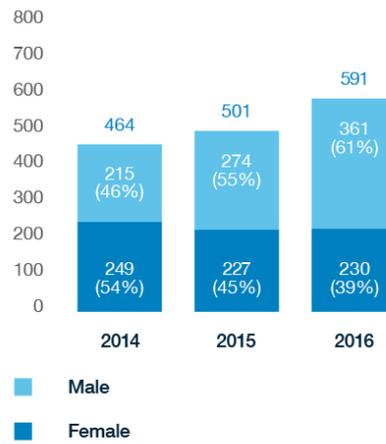
Workforce by region by gender, 2016



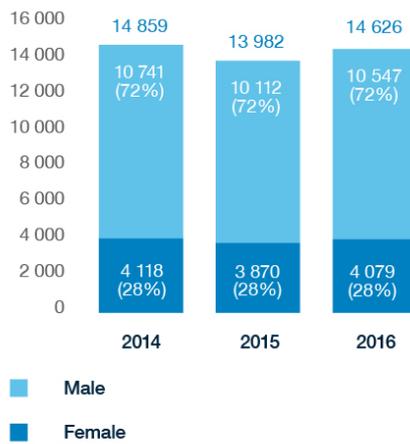
Full-time employees by gender, 2014–2016



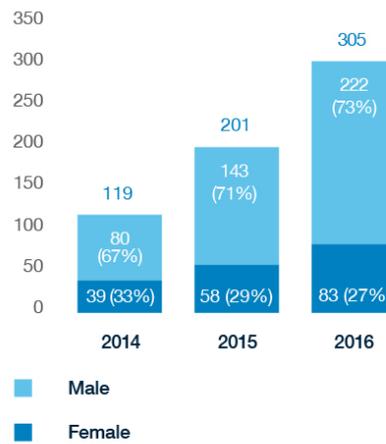
Part-time employees by gender, 2014–2016



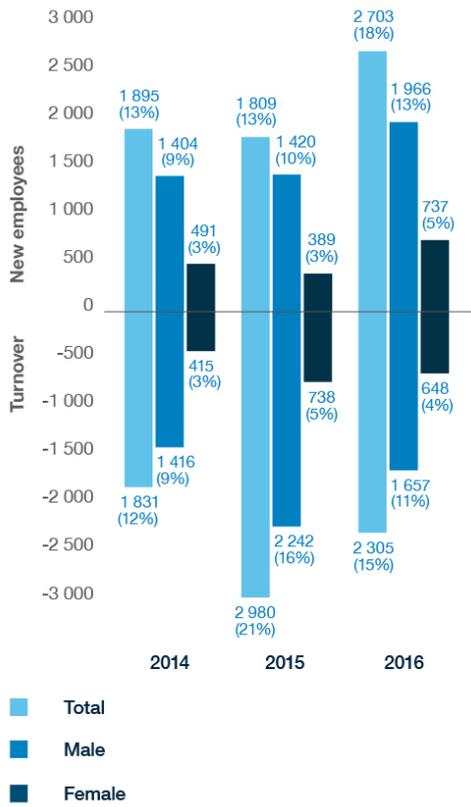
Permanent employment contract by gender, 2014–2016



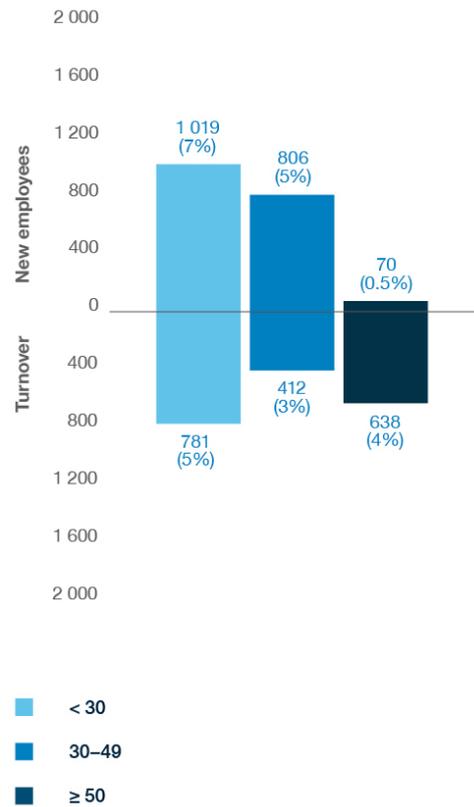
Temporary employment contract by gender, 2014–2016



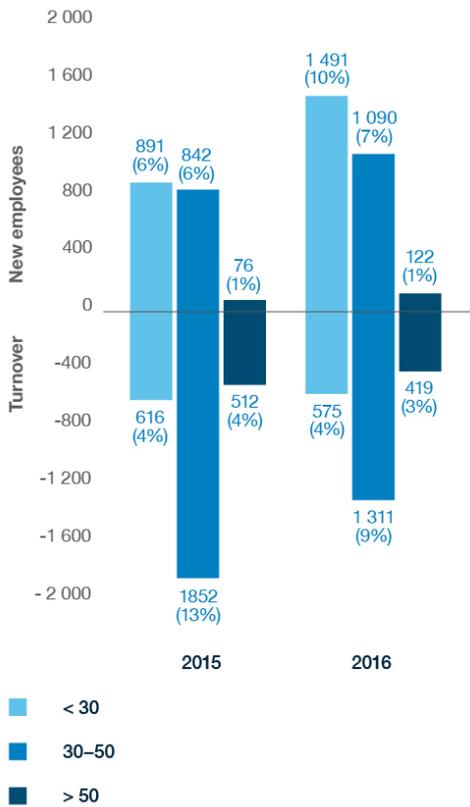
New employees and employee turnover by gender, 2014–2016



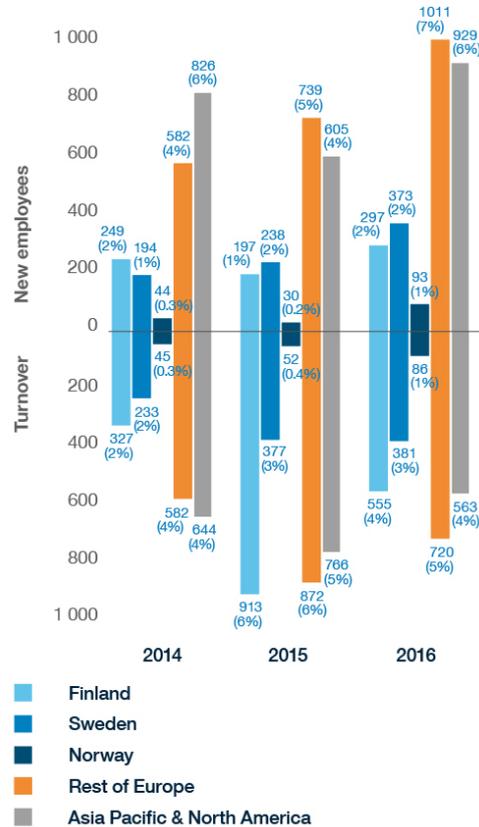
New employees and employee turnover by age groups, 2014



New employees and employee turnover by age groups, 2015–2016



New employees and employee turnover by region, 2014–2016



Tieto’s Human Resources (HR) department is responsible for developing people practices in Tieto. The HR function is led by the Group-level Head of HR while country HR teams are responsible for country-specific HR operations. In addition, Business HR support is also assigned to the respective Service Lines and Industry Groups.

The Tieto Human Resources (HR) Policy serves as the overall strategic direction for our people practices, and applies to all employees and operations globally. This policy states that Tieto supports and respects the principles set out in the United Nations Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

Learning and talent development

The business environment evolution is placing high demands on people development needs. During the year, recruitments as well as one acquisition took place to strengthen competences across different businesses.

The dynamic business environment is impacting competence needs for Tieto as well as other companies. The main drivers for competence renewal are the overall digitalization of society, emergence of new business models and managing the duality – i.e. drive efficiency as well as co-innovate new services and business models simultaneously. New IT roles arise while others become obsolete.

In general, Tieto needs expertise with deep knowledge of IT and experience of the latest technologies, as well as with an understanding of specific industry and customer needs. Knowledge of local market environments, legislation and regulations are also important. At the same time, the company's new strategy and investments to new business areas calls for new competences and skills to be acquired.

During the year, approximately 2 700 new employees were recruited, for instance, industry and solution consultants, architects and software developers. In addition, one acquisition took place, Emric, helping to further strengthen the company's competence base in the areas of financial services and bringing around 200 new employees onboard.

BUILDING A COMPANY CULTURE THAT SUPPORTS LEARNING AND TALENT DEVELOPMENT

To support the constant development needs Tieto is nurturing an Open Source Culture, where employees can grow and learn through collaboration and co-innovation across ecosystems. Activity-based office premises and online tools supporting flexible ways of working are two examples of how the company is striving to create a work environment supporting this culture.

In November 2016, Tieto's new head-office in Espoo opened for the first employees. On each floor, the new office has different areas for communication, collaboration, concentration and chilling out -matching the current diverse needs. Employees can choose an area that best fits them, their role and task at hand. Moreover, the floor plan brings people together and thus substantially increases collaboration and innovation. Each area in itself has different spaces with different emotions and atmospheres, via diverse furniture, lights, colours, scenery, and information and communication technology. The environment embraces transparency, openness, boosts ad hoc collisions, not only from the floor plan, design or area perspective but also using intelligent data.

MOVING TOWARDS CONTINUOUS DIALOGUE AND PERFORMANCE DEVELOPMENT FEEDBACK

Tieto's HR policy states that the present and future employability of the workforce should be supported by continuous learning and competence development. At the same time, the rapidly changing business environment makes competence and performance development a mutual responsibility of the employee and the company.

According to Tieto's Strategy Pulse survey in November, 78% of employees had a goal and development discussion in 2016. Taking attrition and workforce dynamics into account, the annual target is 90%. To better support the needs for constant renewal for the individual as well as the company Tieto is more and more moving towards a culture of continuous dialogue and feedback between the manager and the employee.

ACTIVITIES SUPPORTING COMPETENCE DEVELOPMENT NEEDS

At Tieto, Group-level talent and leadership development activities that support businesses are coordinated and developed by the Tieto Talent and Leadership Development team. Specific competence development is carried out within businesses.

As a whole, Tieto supports employees' growth and learning needs with multiple options, including job rotation, on-the-job learning, self-study, working in different assignments, and through various trainings and e-learnings, to mention a few examples. Approximately 730 trainings are available in the Tieto Academy training portal on a regular basis, and the company also organizes trainings based on needs.

Every year, Tieto also conducts specific training programs. As one example, several new programs for project managers were designed and implemented in 2016. The purpose is to develop project managers to better meet different industry demands and create added value for customers. Tieto also designed and started two new product management programs.

In 2017, Tieto aims at improving awareness and competence of employees in the areas of advanced analytics, design thinking and DevOps. We will also modernize the leadership development portfolio to include more virtual elements and provide topical programmes, e.g. related to leading innovation. Furthermore, Tieto Leadership Forum 2017 will be organized for 250 top leaders and professionals. This event is broadcast to all employees.

“ Open Source Culture supporting learning and talent development.”

Diversity and equal opportunities

Tieto provides equal opportunities for all employees and sees diversity as a strength, helping to build our competitiveness thanks to a reserve of varied experiences and competences. In 2016, Tieto in India was named among the best companies for women.

The ICT industry is developing at a rapid pace. Tieto believes a wide mix of people, whether of gender, age or cultural background, is needed in order to stay competitive. This is why diversity is an integral part of Tieto's recruitment as well as other Human Resources activities. As an employer, Tieto is committed to the principle that all employees shall be treated with equal respect and dignity, and shall be provided with equal opportunities to develop themselves and their careers.

At the end of 2016, 72% (72%) of personnel was male and 28% (28%) was female. Typically, the IT industry is still male dominated and an equal division of male and female employees will be difficult to achieve in the short term. To increase the amount of women in the company, Tieto implements country-specific equality initiatives based on local requirements and needs.

“ Tieto in India named as one of the best companies for women.

In India, diversity and inclusion, of which gender equality covers a big part, has persistently been an integral part of Tieto ever since its inception in India in 2005. In 2016, Tieto was named as one of the best companies for women in the country. The Best Companies for Women in India Study 2016, instituted by Working Mother in partnership with the AVTAR Group, aims to identify best practices and policies followed by companies for increasing women's workforce participation. The study was conducted amongst the 350 biggest employers in the country and lists the 100 Best Companies for Women in India.

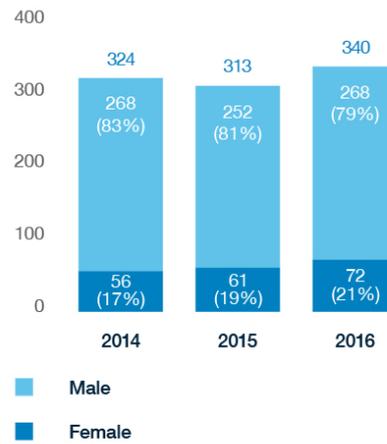
Tieto Sweden was the first IT company in the world to receive the gender equality certification from the Swiss EDGE Certified Foundation at the end of 2015. This certification represents the leading global assessment methodology and business certification standard for gender equality. It assesses policies, practices and numbers across five different areas of analysis: equal pay for equivalent work, recruitment and promotion, leadership development training and mentoring, flexible working, and company culture. Furthermore, Tieto Sweden awarded a prize, IT-woman of the year, at the Universum Awards for Professionals, to highlight gender equality.

Tieto's approach to diversity and inclusion is mirrored in appointments to jobs, rewarding and personal success, which are based on individual ability and performance. In organizational development, Tieto strives at ensuring that management positions increasingly represent females, young professionals and different nationalities. The share of women in senior management positions reached 21% (19%) at year-end. By 31 December 2016, our leadership team consisted of seven men and three women. Our Board of Directors consisted of eight men and two women.

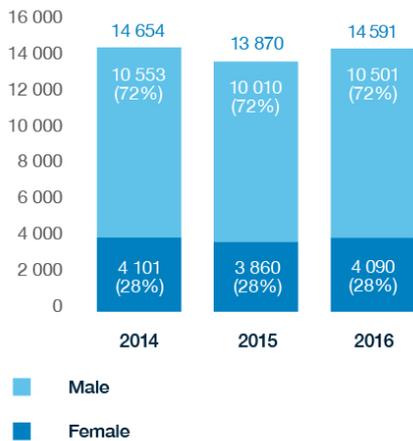
Total workforce by gender, 2014–2016



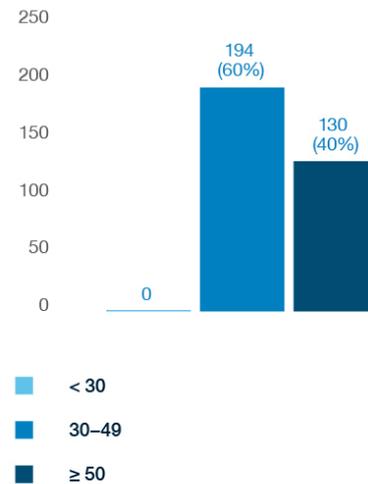
Senior management by gender, 2014–2016



Employees by gender, 2014–2016



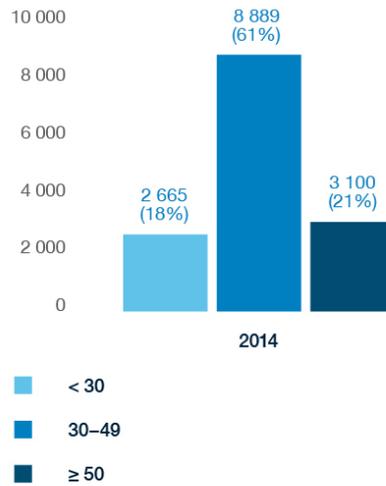
Senior management by age groups, 2014



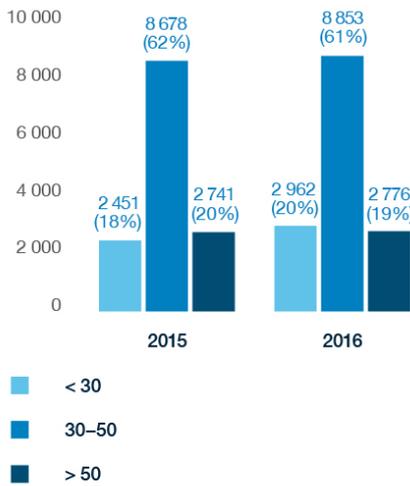
Senior management by age groups, 2015–2016



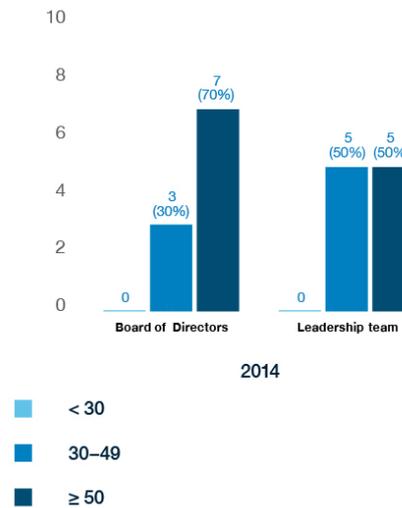
Employees by age groups, 2014



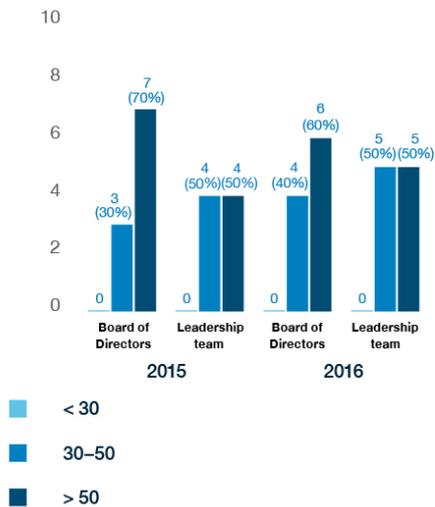
Employees by age groups, 2015–2016



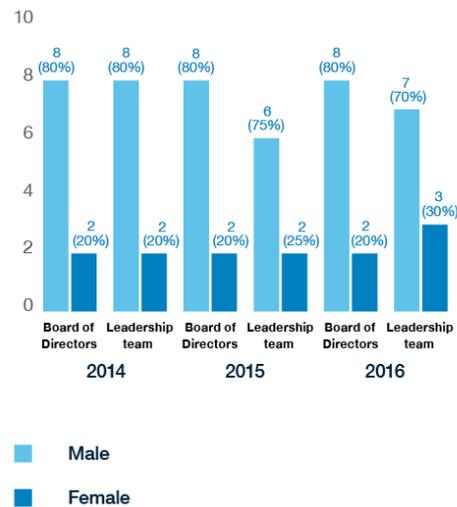
Board of Directors and Leadership team by age groups, 2014



Board of Directors and Leadership team by age groups, 2015–2016



Board of Directors and Leadership team by gender, 2014–2016



At the end of the year, the average age of our employees was 40 years. Many roles in the IT services industry require technological and managerial skills acquired after years of experience. At the same time, the young generation is important to bring in new fresh ideas to the company.

To recruit young professionals Tieto has, as one example, the GenT trainee programme - a yearly graduate programme in Finland, Sweden and Norway. To this programme, the company recruits motivated young talents who can help to drive innovation and company change, and also create a culture of cross-business collaboration. In Finland and Sweden, Tieto also recruits summer trainees and provides master thesis opportunities for students.

Tieto's Code of Conduct policy as well as HR policy state that no forms of discrimination or disrespectful treatment at work are accepted. The yearly goal is to have zero discrimination incidents. No confirmed discrimination cases were found in 2016. Two discrimination incidents were reported and investigations carried out. However, both cases are completed and no further actions are required by the organization.

Tieto is committed to continuing strengthen diversity and inclusion in the company. In Sweden, the aim is to keep the EDGE certificate in the coming years. Based on the approach that leadership comes by skills rather than age, a reverse mentorship program will start in 2017. In this program, young professionals (under 35) are mentors to senior professionals and managers over 35. The Nordic GenT trainee programme will also continue, with the aim of reaching a level of 50% women.

Employee health and wellbeing

Tieto believes in a good and safe work environment, which supports physical and mental wellbeing, and empowers employees to perform and develop as professionals as well as individuals.

Tieto's Occupational Health and Safety Policy states that the company's objective is to proactively avoid any physical or mental illness, accidents or incidents caused by the work environment and affecting the general health of an employee. The company has a zero tolerance for work-related injuries. If a work-related injury occurs, Tieto is committed to actively work to eliminate the cause of the injury.

Changing business environment and shifting customer needs are forcing IT companies and their employees to continuously adapt and develop. While offering opportunities for personal and professional growth, Tieto recognizes this development could also have an impact on the psychosocial wellbeing for some employees, especially when combined with time and cost-critical project based work.

To follow-up on the wellbeing of personnel, we have been measuring employees' work-life balance and experience of stress since 2013. According to the Employee Engagement measurements in 2016, 91% of employees perceived that they have energy left above work-related demands, thus slightly below the target of 95% as a minimum.

STRENGTHENING HEALTH AND WELLBEING THROUGH AN OPEN SOURCE CULTURE

We believe our Open Source Culture has an important role to play in strengthening health and wellbeing among employees. This culture supports a work environment built on openness, transparency and engagement.

Employee experience is an integral and important element in the Open Source Culture. As part of this, Tieto is striving to provide modern and user friendly work tools and office premises supporting a positive work environment. At the same time, employee experience is also based on invisible elements, such as open communication and good leadership. In the end, it's about increasing positive and empowering feelings, and minimizing feelings of frustration that retain employees from performing at their best.

“ New head office supporting employee experience and sustainability.

Tieto's new headquarters in Espoo is designed with employee experience in focus. Here, the aim has been to create a work environment supporting work, different roles, strategic goals and ecosystem thinking in a way that enhances psychosocial wellbeing at the work place.

OFFERING VARIOUS HEALTH-PROMOTING INITIATIVES

As a whole, Tieto is driving many initiatives to support the health and wellbeing of employees. Apart from developing a positive and supportive work environment, the company offers various health-promoting initiatives. These cover annual health check-ups or counselling for stress- or family-related issues, as well as injury- or sickness-related healthcare. Tieto also encourages employees to participate in sports and leisure challenges and other activities arranged by the company.

Country-specific health and wellbeing practices vary according to specific local needs and priorities, and local legislation. As one example, in India Tieto offers employees comprehensive health check-ups free of charge and with assigned medical centres. The company also drives other types of activities to ensure wellness at the workplace. For example, the Association for Sports, Social and Entertainment Activities in India is elected on a yearly basis and plans and conducts engagement activities within sports, culture, and corporate responsibility.

Tieto in Finland has participated in several pilots related to health and wellbeing practices. As one example, in co-operation with a Finnish pension company and occupational healthcare, Tieto Finland now uses an Early Intervention model to prevent and manage risks of work ability. Another new practice, developed in co-operation with the occupational healthcare, is a modernized service model: a Digital Clinic application. Further, Tieto has piloted an online service encouraging activity breaks.

The overall responsibility for developing health and wellbeing in Tieto is carried by the Human Resources (HR) function. The HR team in each country of operation is responsible for the coordination and implementation of arrangements related to occupational health and wellbeing.

In 2017, Tieto will continue focusing on employee experience as a means to strengthen health and wellbeing overall. As part of this, we will start to plan how to copy the headquarter premises concept to other sites.

Employee relations

Tieto recognizes its success as a company is built on the wellbeing and motivation of employees. As an employer, Tieto wants to offer a workplace that both challenges and cares. The long-term goal is to become the employer of choice among our own employees as well as potential employees, such as students and young professionals but also more experienced professionals and leaders.

In 2016, Tieto decided to conduct two more focused company-wide Strategy Pulse surveys instead of the previous annual employment engagement survey, Voice. The main reason behind this change was to gather employee feedback on a more regular basis rather than through one yearly survey, but also to take the temperature on how the strategy was perceived among employees. The response rates were 35% in June and 55% in November 2016.

As a result of this change, the previous year's overall Voice score was no longer available. However, based on the Strategy Pulse survey results the Employee Engagement score in 2016 was 72% in June and 71% in November, thus slightly better than the Employee Engagement score of 70% in 2015. One of the highlights was the relatively stable Employee Engagement score, considering the significant organizational changes during the year. Another improvement was that more employees feel respected and valued in their work compared to the previous year. On the other hand, strategic alignment and trust in the future still needs more attention.

BEING A RESPONSIBLE EMPLOYER

As stated in Tieto's Code of Conduct, the company supports freedom of association and collective bargaining as defined in the ILO Declaration on Fundamental Principles and Rights at Work. Naturally, local employment laws and practices, collective agreements, and individual contract terms, are followed. As a company, Tieto also strives to maintain a high priority on active collaboration with personnel representation bodies.

In 2016, 45% of Tieto employees were covered by collective bargaining agreements. However, the differences between countries vary extensively, with the highest participation in Sweden (100%) and in Finland (98%). In countries of operation where collective bargaining is not applied, for example China and India, Tieto strives to facilitate local forums where issues can be addressed. One example is the Anti-harassment Committee (AHC) in India, a body of representatives from various units of Tieto India which addresses complaints against harassment based on pregnancy, childbirth or related medical conditions, race, religious, creed, colour, national origin or ancestry, physical or mental disability, medical condition, marital status, age, sexual orientation, or any other basis protected by central, state, or local law or ordinance or regulation.

The European Works Council (EWC) in Tieto is the company's Personnel Representative Body (PRB), which works to uphold a free flow of information throughout the company. Human Resources work as an enabler and make sure that all agreements are followed through as agreed. The Executive Vice President of HR is responsible for facilitating the EWC meetings based on the wishes of the EWC members. In addition to the EWC there are country-specific forums, based on local practices and legislation, where the company and employee representatives can share information.

Tieto's personnel elects two members and two deputy members to the Board of Directors. This is done by the personnel representatives in accordance with the Personnel Representation Co-operation Agreement.

Through personnel representation, the aim is to achieve, among others, increased unity in decision making concerning, for example, business operations, financial matters and personnel considerations.

Tieto also supports and facilitates several networking initiatives within the company, for example Tieto Young Professionals (TYP), female networks, an architect community and Tieto Ambassadors networks.

These networks are actively supporting various company initiatives. As one example, Tieto Ambassadors have been driving the move to the new Tieto headoffice.

Procurement and supply chain

Tieto's Supplier Sustainability Programme continued in 2016, helping to strengthen implementation and management of Tieto's ethical requirements throughout the supply chain. By the end of the year, the Supplier Code of Conduct Rule coverage represented 85% of total spend among regular suppliers.

Tieto's supplier base consists of direct and indirect suppliers. Direct suppliers deliver IT products and services needed for customer deliveries, including hardware, software and IT consultant resources. Indirect suppliers deliver products and services needed for our own operations, such as human resources services, facility management and travel services.

In 2016, the total monetary value of procurement amounted to EUR 609 million (605), representing 41 per cent of revenues. Approximately 160 of Tieto's suppliers represent as much as 80 per cent of the company's spending, making it essential to have an aligned perspective on issues related to corporate responsibility (CR). The vast majority of purchases take place in the Nordic countries. Purchases from suppliers invoicing Tieto from Finland, Sweden or Norway represent over 70 per cent of the total annual purchase volume.

Tieto's Procurement Policy is based on the company's values, Code of Conduct Policy and Operative Decision Making and Authority Policy. The Procurement Policy applies to all Tieto companies and employees in all countries of operation. Our Supplier Code of Conduct Rule specifies the ethical business practices applying to suppliers, and is applied to all new supplier contracts to ensure sustainability throughout the supply chains. This rule is based upon the principles of the United Nations Global Compact, of which Tieto is a signatory, and also complemented with Tieto specific expectations.

The Group-level Procurement unit holds a key role in the implementation of Tieto's Procurement Policy as well as Supplier Code of Conduct Rule, and works in close co-operation with Tieto's businesses. Compliance with the Supplier Code of Conduct Rule is also part of the personal KPIs for everyone working in the Procurement unit.

In general, first-tier suppliers enable easier control and thus better possibilities to address sustainability related issues. As a result of consistent consolidation, the number of suppliers in Tieto's supplier base have decreased significantly during the past years, from 7 200 in 2014 to 6 500 in 2016. As a result, Tieto's procurement is more centralized and focused on preferred suppliers today, compared to a few years ago, helping the company to mitigate supply chain related risks.

“ The Supplier Code of Conduct Rule coverage represents 85% of total spend among regular suppliers. ”

Tieto's aim is that all external business undertakings providing goods, services, technology or subcontractors to, or through, Tieto on a regular¹ basis, comply with the minimum requirements stated in the company's Supplier Code of Conduct Rule by 2017. By the end of 2016, 49% (31%) of all regular¹ suppliers had accepted Tieto's Supplier Code of Conduct Rule. The coverage represents 85% (81%) of spend among regular suppliers. In addition to this, Tieto also actively implemented aligned business practices to hundreds of new suppliers followed acquisitions made during the year. Zero violations of the Supplier Code were encountered in 2016 through audits or whistleblowing.

The need for more frequent follow-up of the supply chain has increased in the light of the continuously evolving supplier base. In 2016, a Supplier Code of Conduct Rule compliance campaign was initiated. Among other things, compliance reporting was improved through consolidation of CR information from multiple sources to one single database - the company's ERP system. Furthermore, a user-friendly online tool for sharing information, where suppliers can manifest their compliance with Tieto's Supplier Code of Conduct Rule, was implemented.

One of the main highlights in 2016 was the new headquarters in Espoo, Finland, where Tieto's Procurement organization supported the project and integration of a number of sustainable solutions and services.

Going forward, Tieto plans on continuing robust implementation of the Supplier Sustainability Programme. In addition, the supply chain related KPIs will be revised to focus more on suppliers involved with customer deliveries. The renewed targets will be determined through Tieto's updated CR long-term.

¹⁾ 1 invoice/month, minimum 12 invoices during the year

About sustainability reporting

The non-financial data and information included in Tieto's Annual Report 2016 are prepared in accordance with the core option of GRI G4 Reporting Guidelines. The disclosures focus on the sustainability aspects that are considered to be the most material regarding Tieto's economic, social and environmental performance.

Tieto's material sustainability aspects were identified during a materiality analysis in 2013-2014. The work was included in the company's revised CR long-term plan, which was implemented during the strategy period ending 2016.

The sustainability disclosures include the Parent company Tieto Corporation and all subsidiaries over which the Parent company has direct or indirect control. The GRI Standard Disclosures cover the entire Tieto Group.

If not otherwise stated, all information and data pertains to activities from 1 January to 31 December 2016. The regional data is divided differently between HR and financial data due to system restrictions.

If not otherwise stated, Tieto's energy reporting and corresponding Scope 1 and 2 emissions covers all operating sites (offices, laboratories and data centres). Energy data collection scope was aligned with our Environmental Management System scope; data is collected from data centres, laboratories as well as offices with 50 employees or more. The energy consumption of offices <50 employees was estimated based on our global average values with a 10% safety margin. The scope 2 calculations include energy fed back to the district heat systems in data centres. The original data sources are internal IT systems and invoices from utility providers.

Energy and emission calculations follow the Greenhouse Gas Protocol, and emissions are reported in CO₂. Some calculations are manually conducted. The source of the indirect, locations based energy emission factors is the International Energy Agency (IEA). Base year emissions for Scope 2 were updated using three year average factors for all years. The sources for indirect, market based energy emission factors are energy companies for actual factors. Residual mix factors are used for EU and the IEA factors are used for non-EU countries with no actual market based factor. For direct energy, DEFRA's emission factor is applied. The market based CO₂ emissions from electricity consumption are now reported for the first time for 2015-2016.

Scope 3 business travel related CO₂ emissions were restated as reporting of CO₂ emissions generated from taxi use was discontinued due to data quality issues. In 2016, the CO₂ emissions from taxi use were 1.2% of total reported CO₂ emissions. The CO₂ factors used are DEFRA for flights and VTT Lipasto for own car use. The data was collected from the company IT systems and service providers. Data collection for flight information covers 99% of operations and employee car use covers 71%. Locations with major operations and a significant amount of travel are within the scope.

The base year for the environmental calculations is 2014. In the report, the metric ton/UK tonne equivalent to 1 000 kilograms is stated solely as ton. No restatements were done.

If not otherwise stated, our workforce related figures in the Sustainability section are based on the GRI G4 guidelines. The numbers include joint ventures, hence differing from the headcount in the Financials section. The data sources are company systems, which provide data on full-time and part-time employees and permanent and temporary employees. In 2016, our Voice survey on employee engagement was not conducted, but instead many of the questions were asked in our Strategy Pulse survey. Thus the customer engagement index results 2015-2016 are not fully comparable.

An independent third party, PricewaterhouseCoopers Oy, has provided assurance on the corporate responsibility information disclosed in Tieto's Annual Report 2016. The scope of the assured information is indicated in the independent practitioner's assurance report. Assurance increases transparency and is key to delivering a high-quality report.

This report is also our annual Communication on Progress in accordance with the UN Global Compact requirements. It qualifies for the GC Advanced level.

Our [Corporate Responsibility Report 2015](#) was published on 22 March 2016.

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Independent Practitioner's Assurance Report

To the Management of Tieto Corporation

We have been engaged by the Management of Tieto Corporation (hereinafter also the Company) to perform a limited assurance engagement on selected Corporate Responsibility disclosures for the reporting period 1 January to 31 December 2016, disclosed in Tieto Corporation's Annual Report 2016 (hereinafter Corporate Responsibility Information). In terms of the Company's GRI G4 reporting and G4 Content Index, the scope of the assurance has covered economic, social and environmental Corporate Responsibility disclosures listed within the Specific Standard Disclosures as well as General Standard Disclosures G4-10 and G4-11.

Management's responsibility

The Management of Tieto Corporation is responsible for preparing the Corporate Responsibility Information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative. The Management of Tieto Corporation is also responsible for such internal control as the management determines is necessary to enable the preparation of the Corporate Responsibility Information that is free from material misstatement, whether due to fraud or error.

Practitioner's independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

PricewaterhouseCoopers Oy applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements,

professional standards and applicable legal and regulatory requirements.

Practitioner's responsibility

Our responsibility is to express a limited assurance conclusion on the Corporate Responsibility Information based on the procedures we have performed and the evidence we have obtained. Our assurance report has been prepared in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Tieto Corporation for our work, for this report, or for the conclusions that we have reached.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". That standard requires that we plan and perform the engagement to obtain limited assurance about whether the Corporate Responsibility Information is free from material misstatement.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the Corporate Responsibility Information. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the Corporate Responsibility Information.

Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of the Company.
- Visiting the Company's Head Office as well as one site in Sweden.
- Conducting one video interview with one site in India.
- Interviewing employees responsible for collecting and reporting the Corporate Responsibility Information at the Group level and at the site level where our site visits took place.
- Assessing how Group employees apply the Company's reporting instructions and procedures.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Tieto Corporation's Corporate Responsibility Information for the reporting period ended 31 December 2016 is not properly prepared, in all material respects, in accordance with the Reporting criteria.

When reading our assurance report, the inherent limitations to the accuracy and completeness of corporate responsibility information should be taken into consideration.

Helsinki, 27 February 2017

PricewaterhouseCoopers Oy

Sirpa Juutinen
Partner
Sustainability & Climate Change

GRI content index table

Custom Content Index - 'in accordance' Core

GENERAL STANDARD DISCLOSURES

General Standard Disclosures	Standard Disclosure Title	Link and Reference	Omission	Tieto aspect name and number	UNGC	OECD
STRATEGY AND ANALYSIS						
G4-1	Statement from the most senior decision-maker of the organisation.	CEO statement			Criteria 19	x
ORGANIZATIONAL PROFILE						
G4-3	Name of the organisation.	Tieto in brief			COP report profile	
G4-4	Primary brands, products and services.	Tieto in brief			COP report profile	
		Operating model				
G4-5	Location of organisation's headquarters.	Tieto in brief			COP report profile	
G4-6	Number and name of countries.	Tieto in brief			COP report profile	
		Markets				
G4-7	Nature of ownership and legal form.	Tieto in brief			COP report profile	
G4-8	Markets served.	Markets			COP report profile	
G4-9	Scale of the reporting organisation.	Tieto in brief			COP report profile	
		Markets				
G4-10	Workforce.	Our People			Principle 6 COP report profile	
G4-11	Percentage of total employees covered by collective bargaining agreements.	Employee relations			COP report profile	x
G4-12	Organization's supply chain.	Procurement and supply chain			Criteria 2 COP report profile	
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain.	Operating model Shares and shareholders Procurement and supply chain			COP report profile Criteria 2	
G4-14	Whether and how the precautionary approach or principle is addressed by the organization.	Greener Operations				
G4-15	List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	Our approach to sustainability				
G4-16	List of memberships of associations.	Our approach to sustainability				
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES						
G4-17	List of entities included.	About sustainability reporting				
G4-18	Process for defining the report content and the Aspect Boundaries. Implementation of Reporting Principles.	Materiality analysis				
G4-19	Material Aspects identified in the process for defining report content.	Materiality analysis				
G4-20	Aspect Boundary within the organization for each material Aspect.	Materiality analysis				
G4-21	Aspect Boundary outside the organization for each material Aspect.	Materiality analysis				
G4-22	Effect of any restatements of information provided in previous reports.	About sustainability reporting				
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	Materiality analysis				
STAKEHOLDER ENGAGEMENT						

G4-24	List of stakeholder groups engaged by the organization.	Stakeholder dialogue	Criteria 21			
G4-25	Basis for identification and selection of stakeholders with whom to engage.	Stakeholder dialogue	Criteria 21			
G4-26	Approach to stakeholder engagement.	Stakeholder dialogue	Criteria 21			
G4-27	Key topics and concerns raised through stakeholder engagement.	Stakeholder dialogue	Criteria 21			
REPORT PROFILE						
G4-28	Reporting period.	About sustainability reporting	COP report profile			
G4-29	Date of most recent previous report.	About sustainability reporting	COP report profile			
G4-30	Reporting cycle.	Our approach to sustainability	COP report profile			
G4-31	Contact point for the report.	About sustainability reporting	COP report profile			
G4-32	GRI Content Index for in Accordance 'Core'.	GRI content index table	COP report profile			
G4-33	Report assurance procedures.	Independent assurance report	COP assurance			
GOVERNANCE						
G4-34	Governance structure.	Corporate governance statement	Criteria 20			
G4-36	Executive-level position/s with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.	Managing CR	Criteria 1, 20			
G4-37	Processes for consultation between stakeholders and the highest governance body.	Corporate governance statement Stakeholder dialogue Managing CR	Criteria 1, 20			
G4-39	Reporting whether the Chair of the highest governance body is also an executive officer.	Corporate governance statement	Criteria 1, 20			
G4-48	Highest committee or position that formally reviews and approves the report.	Managing CR Independent assurance report	Criteria 1, 20			
ETHICS AND INTEGRITY						
G4-56	The organization's values and CR policies.	Managing CR	Criteria 12-14 Principle 10			
SPECIFIC STANDARD DISCLOSURES						
DMA and Indicators	Standard Disclosure Title	Link and Reference	Omission	Tieto aspect name and number	UNGC	OECD
ECONOMIC						
MATERIAL ASPECT: ECONOMIC PERFORMANCE						
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Economic impact		4: Financial performance	Criteria 15-18	x
G4-EC1	Direct economic value generated and distributed.	Economic impact		4: Financial performance	Criteria 9-11	x
G4-EC4	Financial assistance received from government.	Economic impact		4: Financial performance	Criteria 9-11	x
MATERIAL ASPECT: INDIRECT ECONOMIC IMPACTS						
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Social engagement		6: Social engagement	Criteria 15-18 Principle 1	x
G4-EC7	Development and impact of infrastructure investments and services supported.	Social engagement		6: Social engagement	Criteria 9-11	
ENVIRONMENTAL						
MATERIAL ASPECT: ENERGY						

G4-DMA	Generic Disclosures on Management Approach.	Managing CR Energy consumption	10: Energy consumption	Criteria 15-18 Principle 8	x
G4-EN3	Energy consumption within the organization.	Energy consumption	10: Energy consumption	Criteria 9-11 Principle 7	x
MATERIAL ASPECT: EMISSIONS					
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Greenhouse gas emissions	13: Greenhouse gas emissions	Criteria 15-18 Principle 7, 8	x
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1).	Greenhouse gas emissions	13: Greenhouse gas emissions	Criteria 9-11 Principle 7	x
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2).	Greenhouse gas emissions	13: Greenhouse gas emissions	Criteria 9-11 Principle 7	x
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3).	Greenhouse gas emissions	13: Greenhouse gas emissions	Criteria 2, 9-11 Principle 7	x
SOCIAL					
MATERIAL ASPECT: EMPLOYMENT					
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Employee relations	18: Employee relations	Criteria 15-18 Principle 3	x
G4-LA1	Total number and rates of new employee hires and employee turnover.	Our people	18: Employee relations	Principle 6	
Tieto 18.1	Employee engagement index.	Employee relations	18: Employee relations		
MATERIAL ASPECT: DIVERSITY AND EQUAL OPPORTUNITY					
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Diversity and equal opportunities	16: Diversity and equal opportunities	Criteria 15-18 Principle 1, 6	x
G4-LA12	Composition of the governance bodies and breakdown of employee categories.	Our People Diversity and equal opportunities	16: Diversity and equal opportunities	Principle 6	
MATERIAL ASPECT: NON-DISCRIMINATION					
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Diversity and equal opportunities	16: Diversity and equal opportunities	Criteria 15-18 Principle 1, 6	x
G4-HR3	Total number of incidents of discrimination and corrective actions taken.	Diversity and equal opportunities Business Ethics	16: Diversity and equal opportunities	Criteria 3-5 Principle 6	x
MATERIAL ASPECT: ANTI-CORRUPTION					
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Business ethics	9: Business ethics	Criteria 15-18 Principle 1,6,10	x
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	Business ethics	9: Business ethics	Criteria 12-14 Principle 10	x
Tieto 9.1	Code of conduct policy, Anti-corruption rule and Competition compliance rule training coverage.	Business ethics	9: Business ethics		
MATERIAL ASPECT: PRODUCT AND SERVICE LABELING					
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Customer experience	1: Customer Experience	Criteria 15-18	x
G4-PR5	Results of surveys measuring customer satisfaction.	Customer experience	1: Customer Experience		
MATERIAL ASPECT: CUSTOMER PRIVACY					
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Information security and data privacy	3: Information security and data privacy	Criteria 15-18 Principles 1,2	x
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Information security and data privacy	3: Information security and data privacy		

TIETO SPECIFIC TOPICS

DMA and Indicators	Standard Disclosure Title	Link and Reference	Omission	Tieto aspect name and number	UNGC	OECD
QUALITY OF PRODUCTS AND SERVICES						
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Quality of products and services		2: Quality of Product and Services	Criteria 15-18	x
Tieto 2.1	ISO certification coverage.	Quality of products and services		2: Quality of Product and Services		
Tieto 2.2	ISO non-conformities handling.	Quality of products and services		2: Quality of Product and Services		
SUSTAINABLE IT						
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Sustainable IT		5: Sustainable IT	Criteria 15-18 Principle 9	x
Tieto 5.1	Estimated avoided emissions from the use of IT services.	Sustainable IT		5: Sustainable IT	Criteria 15-18 Principle 9	x
WASTE MANAGEMENT						
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Waste and use of materials and chemicals		12: Waste management	Principle 8	x
Tieto 12.1	Electronic waste recycled by responsible partners.	Waste and use of materials and chemicals		12: Waste management		
USE OF MATERIALS AND CHEMICALS						
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Waste and use of materials and chemicals		14: Use of materials and chemicals	Criteria 15-18 Principle 8	x
Tieto 14.1	Printing paper consumption.	Waste and use of materials and chemicals		14: Use of materials and chemicals		
PROCUREMENT AND SUPPLY CHAIN						
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Procurement and supply chain		15: Procurement and supply chain	Criteria 15-18 Principle 1,2,4,5	x
Tieto 15.1	% of suppliers adhering to the Supplier Code Rule.	Procurement and supply chain		15: Procurement and supply chain		
Tieto 15.2	Violations of Supplier Code.	Procurement and supply chain		15: Procurement and supply chain		
LEARNING AND TALENT DEVELOPMENT						
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Learning and talent development		17: Learning and talent development	Criteria 15-18 Principle 1	x
Tieto 17.1	Percentage of employees receiving regular performance and career development reviews.	Learning and talent development		17: Learning and talent development		
EMPLOYEE HEALTH AND WELLBEING						
G4-DMA	Generic Disclosures on Management Approach.	Managing CR Employee health and wellbeing		19: Employee health and wellbeing	Criteria 15-18 Principle 1	x
Tieto 19.1	% of employees with energy level above work related demand.	Employee health and wellbeing		19: Employee health and wellbeing		

Corporate Governance Statement

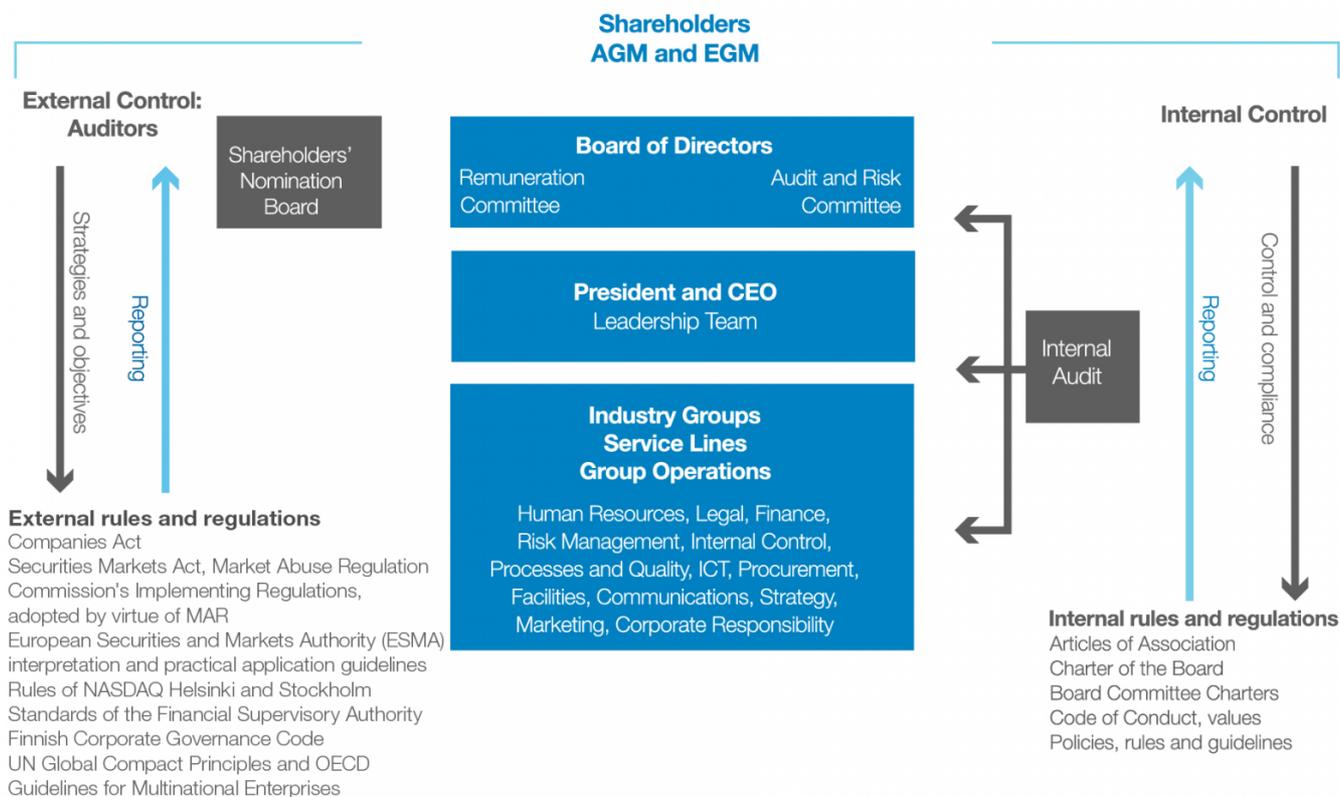
Tieto is committed to good corporate governance. In addition to the relevant legislation and rules of the Helsinki and Stockholm stock exchanges, Tieto complies with the Finnish Corporate Governance Code issued by the Securities Market Association of Finland in 2015 with the exception of the appointment procedure for electing two personnel representatives to the Board (Recommendation 5) as described in detail to [The Board of Directors](#) section.

This Corporate Governance Statement has been prepared in accordance with the Finnish Corporate Governance Code 2015. The code is available at www.cgfinland.fi. This statement has been issued separately from the report by the Board of Directors and included in the Financial Review 2016.

Tieto's Audit and Risk Committee has reviewed this statement and our independent external auditor, PricewaterhouseCoopers Oy, has verified that the statement has been duly issued and the description of the main features of the internal control and risk management systems related to the financial reporting process is consistent with the financial statements of the company.

This document and previous statements have been published on the company's website at www.tieto.com/Investors. Updated and additional information is also available on the website. The Governance section of the website provides further information on matters such as the Annual General Meeting (AGM), Articles of Association, Board of Directors, Leadership Team and auditors, as well as remuneration.

Governance at Tieto



Annual General Meeting

Tieto's supreme decision-making body is the AGM. Every shareholder has a right to participate in the AGM and each share in Tieto entitles its holder to one vote. However, no shareholder is allowed to vote at a General Meeting with more than one fifth (1/5) of the votes represented at the meeting.

The AGM elects the members of the Board of Directors (including the Chairman) and appoints auditors, decides on their compensation and discharges the members of the Board and President and CEO from liability. The AGM's approval is required for option programmes as well as Board authorizations for share repurchases and share issues. The meeting also makes the decision on the Board's dividend proposal.

The following persons are present at Tieto's AGM:

- Board of Directors: Chairman, Board members and new Board member candidates
- Leadership Team: President and CEO, CFO
- Auditors

For more information regarding the AGM 2017 and previous meetings, shareholders and participation possibilities, please visit the company's [website](#).

Tieto's AGM 2016

- In 2016, the AGM convened on 22 March at Scandic Park hotel in Helsinki, Finland. Altogether 572 shareholders and 48 509 883 shares (66.0% of the total outstanding shares) were represented at the meeting.
- No Extraordinary General Meetings were held in 2016.

Shareholders' Nomination Board (SNB)

Tieto's AGM decided in 2010 to establish a Shareholders' Nomination Board which is a body of shareholders responsible for preparing the proposals to the AGM for the election and remuneration of the members of the Board of Directors.

The SNB consists of five members. Four of the members represent the four major shareholders who on 31 August held the largest number of votes conferred by all shares in the company and who wish to participate in the nomination process. The fifth member is the Chairman of the Board of Directors of Tieto Corporation. The term of office of the SNB members expires when a new SNB has been appointed. The SNB itself is an organ that has been established for the time being. The charter of the SNB is available on the company's website at www.tieto.com/investors/tietos-governance/shareholdersnomination-board.

The SNB preparing the proposals to AGM 2017 consists of the following representatives announced by Tieto's shareholders:

Nominated by Cevian Capital Partners Ltd:

Martin Oliw
Main occupation: Partner, Cevian Capital AB
Born: 1977
Nationality: Swedish
Education: MSc. (Econ.), MSc. (Eng.)

Nominated by Solidium Oy:

Kari Järvinen
Main occupation: Managing Director, Solidium Oy
Born: 1962
Nationality: Finnish
Education: MSc. (Eng.), MBA

Nominated by Ilmarinen Mutual Pension Insurance Company:

Timo Ritakallio
Main occupation: President and CEO, Ilmarinen Mutual Pension Insurance Company
Born: 1962
Nationality: Finnish
Education: DSc. (Tech.), LL.M., MBA

Nominated by Elo Mutual Pension Insurance Company:

Satu Huber
Main occupation: Chief Executive Officer, Elo Mutual Pension Insurance Company
Born: 1958
Nationality: Finnish
Education: MSc. (Econ.)

Representing the Board of Directors of Tieto Corporation:

Markku Pohjola

The Nomination Board decided that Martin Oliw shall act as Chairman. The SNB convened three times and provided Tieto's Board of Directors on 31 January 2017 with its proposals for the AGM 2017. The SNB proposes to the Annual General Meeting that the Board of Directors shall have eight members and that the current Board members Kurt Jofs, Harri-Pekka Kaukonen, Johanna Lamminen, Sari Pajari, Endre Rangnes and Jonas Synnergren be re-elected. In addition, Timo Ahopelto and Jonas Wiström are proposed to be elected as new Board members. Markku Pohjola and Lars Wollung have announced that they are not available for re-election. The Shareholders' Nomination Board proposes that Kurt Jofs shall be elected as the Chairman of the Board of Directors.

The biographical details of the candidates and information on their holdings in Tieto are available on the company's website at www.tieto.com/cv.

The Shareholders' Nomination Board proposes that the remuneration of the Board of Directors will comprise annual fees, which will be increased as follows: EUR 91 000 to the Chairman (current EUR 83 000), EUR 55 000 to the Deputy Chairman (current EUR 52 500) and EUR 36 000 to the ordinary members of the Board of Directors (current EUR 34 500). The same fee as to the Board Deputy Chairman will be paid to the Chairman of a Board Committee unless the same individual is also the Chairman or Deputy Chairman of the Board. In addition to these fees it is proposed that each member of the Board of Directors be paid the same remuneration of EUR 800 for each Board meeting as currently and for each permanent or temporary committee meeting. It is the company's practice not to pay fees to Board members who are also employees of the Tieto Group.

The Shareholders' Nomination Board proposes that 40% of the fixed annual remuneration be paid in Tieto Corporation's shares purchased from the market. The shares will be purchased within two weeks from the release of the interim report for January 1-March 31, 2017. According to the proposal, the Annual General Meeting will resolve to acquire the shares directly on behalf of the members of the Board which is an approved manner to acquire the company's shares in accordance with the applicable insider rules. The Shareholders' Nomination Board is of the opinion that increasing the long-term shareholding of the Board members will benefit all the shareholders.

The Board of Directors

It is the general obligation of Tieto's Board of Directors to safeguard the interests of the company and its shareholders.

Composition and election of Tieto's Board of Directors

According to Tieto's Articles of Association, the Board of Directors shall consist of at least six and no more than twelve members. Board members have a term of office of one year, expiring at the closing of the first AGM following the election.

The company has defined as an objective that in addition to professional competence, Tieto's Board members shall be diversified in terms of gender, occupational and professional background and that the Board as a group shall have sufficient knowledge of and competence in, inter alia, the company's field of business and markets.

The SNB, which consists of representatives nominated by the company's largest shareholders, prepares a proposal on the composition of the Board to be presented to the AGM for its decision. In addition to the Board of Directors having established the aforesaid diversity principles and included them in the Board charter, the company took steps to ensure that the principles were included in the charter of the SNB and taken into account in the candidate search. The ratio of gender diversity of the members elected by the AGM has remained stable since 2012 and been 2:6 (i.e. approximately 33.3% female and 66.7% male members).

In addition to the members proposed by the SNB and elect by the AGM, Tieto's personnel elects two members and two deputy members to the Board of Directors. The term of office for the personnel representatives is two years. This special appointment procedure is a departure from Recommendation 5 "Election of the Board of Directors" of the Corporate Governance Code 2015. Personnel representation is based on the Finnish Act on Personnel Representation in the Administration of Undertakings and was originally agreed between Tieto Corporation and the personnel of the Group by way of a Personnel Representation Cooperation Agreement in 2001.

The objectives of personnel representation are, inter alia, to provide opportunities for the personnel to influence and affect the organization, to improve communication and decision making within the Group, to increase mutual trust and confidence between corporate management and the personnel as well as to increase and develop the feeling of security among the personnel. The personnel representatives, however, are not entitled to participate in the handling of matters that concern the appointment or dismissal of corporate management, the contractual terms of the management, the terms of employment of staff or matters related to industrial actions.

Board of Directors as at 31 December 2016

Name	Born	Nationality	Education	Main occupation
Markku Pohjola (Chairman)	1948	Finnish	BSc. (Econ.)	Professional Board member
Kurt Jofs (Deputy Chairman)	1958	Swedish	MSc. (Eng.)	Entrepreneur, investor and Board member
Harri-Pekka Kaukonen	1963	Finnish	DSc. (Tech.)	Professional Board member
Johanna Lamminen	1966	Finnish	DSc. (Tech.), MBA	CEO, Gasum Ltd
Sari Pajari	1968	Finnish	MSc. (Eng.)	SVP, Supply Chain and Business Development, Metsä Board Oyj
Endre Rangnes	1959	Norwegian	BBA (Econ.)	Professional Board member
Jonas Synnergren	1977	Swedish	MSc. (Econ.)	Partner, Cevian Capital AB
Lars Wollung	1961	Swedish	MSc. (Econ.), MSc. (Engineering)	Professional Board member
Esa Koskinen (Personnel representative)	1955	Finnish	MSc. (Econ.)	Test Engineer
Anders Palkint (Personnel representative)	1967	Swedish	MSc. (Electrical Engineering)	Senior Project Manager

Independency and attendance at Board and its Committees' meetings in 2016

	Member since	Independent	Board	Audit & Risk Committee	Remuneration Committee
Markku Pohjola	2009	Yes	10/10	-	7/7
Kurt Jofs	2010	Yes	10/10	6/6	2/2
Harri-Pekka Kaukonen ¹⁾	2016	Yes	9/9	-	5/5
Johanna Lamminen ¹⁾	2016	Yes	8/9	6/6	-
Eva Lindqvist ²⁾	2010	Yes	1/1	1/1	-
Sari Pajari	2012	Yes	10/10	-	7/7
Endre Rangnes	2014	Yes	9/10	-	7/7
Teuvo Salminen ²⁾	2010	Yes	1/1	1/1	-
Jonas Synnergren	2012	No	10/10	7/7	-
Lars Wollung	2015	Yes	10/10	6/7	-
Esa Koskinen	2014	-	9/10	-	-
Anders Palkint	2014	-	10/10	-	-

¹⁾ Board member as from 22 March 2016.

²⁾ Board member until 22 March 2016.

All Board members of Tieto are independent of the company and seven out of eight members are independent of the company's significant shareholders. The independence of the members is evaluated at the Board's constitutive meeting. The Board members shall inform the Board if any changes in these circumstances occur, in which case their independence will be re-evaluated.

More detailed background information regarding the Board members, such as working experience, past and present positions of trust and the Remuneration Statement, is presented on the company's website at www.tieto.com/investors.

Tasks of Tieto's Board

The main duties and working principles of the Board have been defined in a written charter. Additionally, the work of the Board is based on an annual action plan.

More specifically, the Board:

- approves the company's values, strategy and organizational structure
- defines the company's dividend policy
- approves the company's annual plan and budget and supervises their implementation
- monitors management succession issues, appoints and discharges the President and CEO
- decides on the President and CEO's compensation, sets annual targets and evaluates their accomplishment
- decides on the compensation of the President and CEO's immediate subordinates
- addresses the major risks and their management at least once a year
- reviews and approves interim reports, annual reports and financial statements
- reviews and approves the company's key policies
- is accountable for guiding the organization's strategy on environmental and social topics
- meets the company's auditors at least once a year without the company's management
- appoints the members and Chairmen of the Board's committees and defines their charters
- reviews assessments of its committees as well as the President and CEO
- evaluates its own activities.

Work of Tieto's Board

The Board has scheduled meetings every one to two months. Besides the Board members, the

meetings are attended by the President and CEO, Chief Financial Officer (CFO) and General Counsel, who acts as secretary of the meetings. In addition to the scheduled meetings, the Chairman shall convene the Board whenever needed as well as at the request of any of its members or the President and CEO.

Matters to be handled are prepared by the Board committees and the President and CEO. The Board receives information on the company's financial performance monthly and more detailed financial reports quarterly. Any material related to issues to be handled by the Board is provided four days prior to the meeting. Other case-specific materials are delivered at the management's initiative or the Board's request. Board members shall be informed about all significant company events immediately.

Work of Tieto's Board in 2016

- The Board convened 10 times in 2016 and the average attendance was 97.4%.
- The Board met once during the year without the management present.
- The Board held one joint meeting with the auditors.
- The Board met the auditors once without the presence of the management.

Assessment of the Board

The performance of Tieto's Board is assessed annually; the latest assessment was carried out together with an external consultant in late 2016. Assessments review the Board's knowledge of the company's operations and management as well as its understanding of the field of business. Additionally, the effectiveness of the Board work is evaluated. The SNB is informed of the results, which are also taken into consideration when the Board draws up its next annual plan.

Board committees

Tieto's Board is assisted by two permanent committees that prepare matters for which the Board is responsible. The Board defines the charters of the committees and decides on their composition. The entire Board remains responsible for the duties assigned to the committees.

Remuneration Committee (RC)

The RC comprises at least three non-executive directors elected by the Board. The majority of the members shall be independent of the company. The head of Human Resources (HR) acts as secretary of the meetings.

In 2016, all committee members were non-executive directors who were independent of the company and of significant shareholders. Based on the Board's decision, the RC was composed of:

- Markku Pohjola (Chairman)
- Harri-Pekka Kaukonen
- Sari Pajari
- Endre Rangnes

The committee meets regularly and at least twice a year. The Chairman of the committee reports to the Board when applicable. The main tasks of the committee are to:

- monitor the targets of the compensation schemes, implementation of the compensation schemes, performance assessment and compensation determination
- ensure that the targets set for earning the bonuses defined in the compensation scheme are met
- prepare a proposal for the Deputy Chairman of the Board
- prepare a proposal on the committees (members and Chairmen, and the duties and responsibilities of the committees)
- monitor corporate governance
- prepare a compensation proposal concerning the President and CEO and his immediate subordinates, and the principles of personnel compensation
- prepare for the Board option schemes and other share-based incentive schemes
- evaluate the performance of the President and CEO
- prepare the assessment of the Leadership Team
- prepare a proposal on the Board's charter.

Work of Tieto's RC in 2016

- The committee convened seven times in 2016 and the attendance was 100%.
- The main issues considered by the Remuneration Committee were approving the short-term incentive (STI) results for 2015, reviewing the remuneration for the Leadership Team, following up progress on 2016 bonus performance criteria, and approving the Long-Term Incentive Programme (LTI) 2016 nominations. The remuneration committee approved the STI framework for 2017 and the Long-Term Incentive programme for 2017-2019.

Audit and Risk Committee (ARC)

The ARC comprises at least three non-executive directors who are independent of the company and out of whom at least one member shall be independent of the significant shareholders. The Chairman and the members are elected by the Board. At least one committee member must have expertise in accounting, bookkeeping or auditing. Tieto's Deputy General Counsel acts as secretary of the meetings.

In 2016, all committee members were non-executive directors who were independent of the company and three of them independent of significant shareholders. All members have extensive experience in corporate management and financial issues and therefore have the required expertise.

Based on the Board's decision, the ARC was composed of

- Kurt Jofs (Chairman)
- Johanna Lamminen
- Jonas Synnergren
- Lars Wollung

The committee convenes regularly at least four times a year and meets the company's auditors, also without the company's management present. The Chairman of the committee reports to the Board when applicable. The main tasks of the committee are to:

- review and supervise internal control – particularly the financial reporting process – and risk management issues
- discuss and review the interim and annual reports and the financial statements
- assess compliance with legislation, official regulations and the company's Code of Conduct
- evaluate the sufficiency of internal control and the internal audit
- examine, assess and approve the internal audit plan
- assess the appropriate coverage of risk management and monitor the efficiency of risk management
- review significant risks and unusual business events
- prepare for the Board's decision a proposal for the AGM on the nomination of external auditors and their compensation
- evaluate the external auditors' independence, assess the audit plan and examine the audit reports

- monitor the statutory audit and consult with the auditors regarding matters that should be brought to the Board's attention.

Work of Tieto's ARC in 2016

- The committee convened seven times in 2016 and average attendance was 97.7%.
- In addition to its regular agenda items, the committee arranged a full-scale tender process regarding the company's statutory auditor to be appointed by AGM 2017 and focused on monitoring project and delivery management.

The President and CEO and operative management

Tieto Group's operative management consists of the President and CEO, the Leadership Team and the Industry Group, Service Line and Product Development Services (PDS) organizations. The Industry Solutions Service Line includes the New Data-Driven Businesses unit organized independently of other businesses.

The President and CEO is appointed by the Board and he is responsible for the Group's operative management, internal efficiency and quality.

The President and CEO is assisted by the Leadership Team, which includes the heads of Industry Groups and Service Lines, head of New Data-Driven Businesses, the CFO and the head of HR. Appointments of Leadership Team members are approved by the Chairman of the Board based on the President and CEO's proposal.

The Leadership Team members are accountable for the performance and development of their management areas and they supervise the operations of the units belonging to their areas. As a general rule, the business units in both management dimensions (Industry Groups, Service Lines and PDS) make their own operative decisions and are responsible for conducting their operative duties. The Industry Group, Service Line and PDS organizations have a profit and loss responsibility. Further, the Leadership Team also monitors the company's corporate responsibility (CR) performance and approves the CR goals in cooperation with the Board of Directors.

Members of the Leadership Team as at 31 December 2016

Kimmo Alkio

President and CEO

Born: 1963

Nationality: Finnish

Education: BBA and Executive MBA

Joined the company in 2011

Håkan Dahlström

Executive Vice President, Technology Services and Modernization

Born: 1962

Nationality: Swedish

Education: MSc. (Eng.)

Joined the company in 2014

Lasse Heinonen

Chief Financial Officer

Born: 1968

Nationality: Finnish

Education: MSc. (Econ.)

Joined the company in 2011

Per Johanson

Executive Vice President, Financial Services

Born: 1962

Nationality: Swedish

Education: BA, Marketing and MBA

Joined the company in 2009

Ari Järvelä

Executive Vice President, New Data-Driven Businesses

Born: 1969

Nationality: Finnish

Education: MSc. (Eng.)

Joined the company in 2001

Ari Karppinen

Executive Vice President, Chief Technology Officer

Born: 1957

Nationality: Finnish

Education: MSc. (Eng.)

Joined the company in 1987

Satu Kiiskinen

Executive Vice President, Industrial and Consumer Services

Born: 1965

Nationality: Finnish

Education: MSc. (Econ.)

Joined the company in 2013

Katariina Kravi

Executive Vice President, Human Resources

Born: 1967

Nationality: Finnish

Education: LL.M., trained on the bench

Joined the company in 2012

Cristina Petrescu

Executive Vice President, Public, Healthcare & Welfare

Born: 1968

Nationality: Swedish

Education: MSc. (Computer Science)

Joined the company in 2002

Tom Leskinen

Executive Vice President, Product Development Services

Born: 1966

Nationality: Finnish

Education: LicSc. (Tech.)

Joined the company in 2013

The remuneration of the Leadership Team is presented in the tables of the [Remuneration Statement](#). More detailed background information, such as full CVs of the Leadership Team, is presented on the company's website at www.tieto.com/Investors.

Internal control and risk management

Tieto’s internal control framework supports the execution of the strategy and ensures regulatory compliance. The foundation for internal control is set by the risk management framework, financial control, internal audit and supporting policies.

The aim of Tieto’s internal control framework is to assure that operations are effective and well aligned with the strategic goals. The internal control framework is intended to ensure correct, reliable, complete and timely financial reporting and management information. The framework endorses

ethical values, good corporate governance and risk management practices.

The activities related to internal control and risk management are part of Tieto’s management practices and integrated into the business and planning processes.

Risk Management Framework

Tieto uses systematic risk management to develop the efficiency and control of business operations as well as their profitability and continuity.



CRO: Chief Risk Officer
IA: Internal Audit

The risk management framework consists of the risk management organization, related policies, operating principles and tools. The risk management organization develops and maintains the company's risk management framework, including risk reporting, risk management governance and follow-up of risk exposures consisting of strategic, financial, operational and compliance risks.

Each process owner is responsible for the continuous development and improvement of the established procedures, including controls and risk management. The Chief Risk Officer (CRO) has the responsibility to arrange and lead Tieto's risk management. The Internal Audit (IA) assures the efficiency of the framework and risk management in business operations. The ARC monitors the adequacy of the company's risk management, financial control, and internal audit functions.

Tieto has also determined its compliance management system, including the compliance organization, steering model and annual plan for compliance-related activities. The Group Compliance Officer is responsible for ensuring the effectiveness and functionality of the governance model and coordinating the compliance work.

Continuous development of the risk framework

The main changes and improvements in 2016 were connected to the new Tieto organization, which was in effect as from 1 July. This required changes in the Tieto Risk Management database to accommodate the new organization structure and remap the risks to the correct units. Also, the follow-up of the project risk management was improved to reduce administrative and manual work. Systematic risk management has contributed to a more mature risk management culture.

The development of the risk management framework is carried out in close cooperation with Risk Coaches in the units and approved by Tieto Leadership Team and validated by the ARC.

Financial control

The purpose of internal control over financial reporting is to ensure the correctness of financial reporting, including interim and annual reports and the compliance of financial reporting with regulatory requirements.

The ARC has the oversight role in Tieto's external financial reporting.

Financial reporting process and responsibilities

Tieto has a common accounting and reporting platform. Group consolidation and reporting are based on the reporting system, which facilitates common control requirements for all legal entities reporting to the Group. Financial reporting consists of monthly performance reports, including all the key performance indicators, rolling forecasts and interim financial reports.

Financial reports are regularly reviewed by Finance Partners in the units, the Leadership Teams and the Board of Directors. The follow-up is based on a thorough comparison of the actual figures with the set objectives, forecasts and previous periods. If the figures deviate, the Leadership Team members are responsible for initiating corrective actions.

Internal audit

Tieto's Internal Audit function carries out both business- and control-related audit activities.

Business audit activities aim to ensure the efficiency and appropriateness of Tieto's operations. Control-related audit activities are intended to assess and assure the adequacy and effectiveness of internal controls and the risk management framework within Tieto. Internal audits are planned and carried out independently but in coordination with other control functions and the external auditors. Audits can also be initiated due to fraud attempts, misconduct or other breaches of laws or the company's policies and rules. Internal Audit reports to the Chief Financial Officer (CFO), the President and CEO and the ARC. The annual audit plan and the annual internal audit report are approved by the ARC.

Major risks

Risks at Tieto are categorized as strategic, operational, financial and compliance risks.

Strategic risks are related to market volatility, IT market transformation to new technologies (including the rapid digitalization of society), change management, reskilling ability and speed, agility to respond to new entrants in the market, dependencies on few big customers in some business areas and ensuring delivery quality in the dynamic business environment.

Operational risks refer to changing the business model in business units, risk and continuity management, customer bidding and requirement analysis and maintaining a high professional standard in delivery management and quality assurance.

Financial risks mainly consist of credit risks, currency risks, interest rate risks and liquidity risks.

Compliance risks are connected to the organization failing to recognize or meet a great number of changes to requirements in the areas of legislation or other mandatory regulation (e.g. new General Data Protection Regulation, anti-corruption, anti-bribery, insider matters, trade compliance legislation), internal policies and rules or ethics and integrity

Risks are aggregated by utilizing corporate risk reporting tools, resulting in risk maps that are reviewed by Leadership Teams in the units and the ARC. Tieto's major risks and the measures for their mitigation are described below.

Market volatility

Changes in the Nordic core markets have a direct effect on market conditions and result in volatility that might have a negative impact on Nordic market growth. Changes in the economic environment and customer demand can affect both business volumes and price levels, which might result in lower income or slower income growth than expected.

These potential impacts are partly mitigated through multi-year contracts for continuous services. Tieto also aims to maintain long-term business relations and to be a preferred supplier to its key customers, including full stack IT deliveries.

The company executes tight cost and investment control with continuous investment performance monitoring, accompanied with a clear structure for decision rights. Global service capabilities, cross-selling and tough price competition are the main drivers in the IT sector for the development of the global delivery model. Tieto's position as a leading enterprise cloud service provider in the Nordics is supported by existing and enhanced competencies, and by the choice of right partners.

Change and transformation

In large-scale adaptation to the market by organizational transformation and right-sizing, resistance to change can prolong the transition, which may affect operational efficiency long after the change.

The change management capacity is concentrated in a common programme management office (PMO), which provides standard tools and systems for the change, including communication, target setting and training for the transition period of strategy execution. PMO can also be used to plan reskilling, staffing and retention to respond to challenges from new entrants in the market.

As a very large proportion of Tieto's sales and the majority of profits are generated in Finland, the company's high market share in this country means that achieving growth there is challenging, but possible. Sweden is the second-biggest market and has clear growth potential. Additionally, around half of our current consulting-type revenue is from short-term contracts, but a strong order backlog compensates for this.

Sudden changes in the market environment, customer demand and customer strategies or the competitive landscape in these areas might harm Tieto's operations and profitability.

To diversify the business, Tieto also provides services to a number of different industries and aims to develop its business mix with a view to providing full stack IT services and thereby strengthen its position amongst both current and new customers. An industrialized and standardized way of providing services and solutions is a measure to improve competitiveness and reduce the risk.

Service continuity

Close to 100% availability is the basis of the trust towards customers and to the society. Thus, business continuity planning is a high priority in Tieto's operational management; this includes careful reviews of the services and systems to avoid single point of failure patterns.

To reduce the service continuity risk and to better understand the interdependencies in data centres, Tieto constantly reviews, maintains and improves its IT asset management, configuration management and monitoring systems. In addition to a comprehensive business interruption insurance portfolio, Tieto has recovery procedures and backup systems in place to handle potential service interruptions. Root cause analysis, best practices and experiences from previous incidents help in preparing for and in mitigating service continuity risk.

Quality costs related to customer bidding and delivery management

Inability to appropriately understand and analyse customers' changing needs, their business processes and the exact requirements can lead to misjudgements in setting the scope of projects or services and, consequently, difficulties in meeting the specifications of customer agreements. This in turn can result in project overruns, operating losses or termination of customer contracts.

Tieto continuously gathers customer feedback to establish the requirement baselines and checklists for different business areas. Continuous improvement of the bid risk management, requirement analysis, delivery management and the quality assurance of the deliveries is carried out to mitigate the risk. Also, specific risk assessment tools are used for better understanding of customer bidding and end-to-end risk management, from sales to the closure of the delivery. In case of changes in customers' business requirements, it is contractually agreed that the consequent changes in project deliveries are managed throughout the project organization in a standard manner.

Retention of employees

Fresh competition and demand for new services require ability and speed to reskill, attract new and retain existing competences and business knowledge for new service models and offerings. Tieto's success builds on passion, innovation, attracting talent, skills renewal, business knowledge and the maturity of the organization. In addition, the performance of its employees and managers both

locally and in its delivery centres worldwide is key to its success.

Inability to retain key employees and to recruit new talent with the required competence might have a negative impact on the company's performance and strategy implementation. High employee turnover might also cause delays in customer projects, leading to penalties or loss of customer accounts.

To reduce these risks, Tieto implements unified delivery models across sites and offers its employees challenging jobs, diverse development possibilities, social recognition and training opportunities as well as interesting career paths through job rotation. Furthermore, the company has competitive compensation packages, including a company-wide incentive system. Attractive recruitment tools, strategies, talent management and competence development have a high strategic priority at Tieto. The company also focuses on Employer Branding to build and strengthen Tieto's image as an attractive employer both internally and externally.

Credit risks

Changes in the general market environment and global economy can usher in additional financial risks. Credit risks might arise if customers or financial counterparties are not able to fulfil their commitments towards Tieto.

Under Tieto's Credit Policy, the finance department together with the business organization is responsible for assessing customers' creditworthiness, taking into account past experience, their financial position and other relevant factors. Credit risk regarding financial counterparties is managed by using counterparty limits, as set out in Tieto's Treasury Policy.

A special focus has been put on raising awareness of credit risks with additional reporting and training processes. The collection process has been designed to better correspond to higher credit risks.

Currency risks

Tieto's currency transaction exposure arises from foreign trade, cash management and internal funding in foreign currencies. Translating the balance sheets and income statements of Group companies into euros creates a translation exposure.

As a substantial proportion of the Group's consolidated revenues are generated in Sweden, fluctuations of the Swedish krona against the euro may have an impact on the consolidated financial statements.

Tieto's Treasury Policy defines the principles and risk limits under which Group Treasury manages currency risks.

Liquidity risks

Exceptional market conditions in the financial market might impose temporary limitations on raising new funding and lead to an increase in funding costs.

Group Treasury monitors and manages Tieto's liquidity position by maintaining a sufficient loan and investment portfolio. Analyses of alternative financing sources for the company and their pricing are continuously updated. Tieto's financial risks are described in full in the notes to the financial statements.

Governance of risk and compliance

At Tieto, governance, risk, and compliance (GRC) are closely linked and consistently defined in corporate policies and rules with proper controls. In the finance function, for example, financial reporting, compliance and risk monitoring are efficiently integrated into daily operations. Thanks to automated processes, Tieto can readily adapt to changes in business conditions, regulations or corporate policy with the necessary risk management controls.

Tieto has invested in process automation, which is seen as a way to improve quality and reduce costs. Well-drafted policies and rules are made available to assure that the implications of automation on risk and compliance are fully understood by all parties in the organization.

Related-party transactions

Tieto discloses the information concerning related-party transactions in the report by the Board of Directors and notes of the financial statements. Further, the company evaluates and monitors transactions concluded between the company and its related parties and seeks to ensure that any conflicts of interest shall be taken into account in the decision making.

The related-party transactions are summarized in [note 33](#) of the financial statements. Tieto does not currently consider the related-party transactions material from the perspective of the company. Furthermore, such transactions neither deviate from the company's normal business operations nor are they made on terms that deviate from market equivalent.

Insider administration

Tieto follows Nasdaq Helsinki's Rules of the Exchange and Guidelines for Insiders. In addition, Tieto's Board of Directors has adopted Tieto Insider Rule. As a result of the entry into force of the Market Abuse Regulation (EU/596/2014, "MAR") on 3 July 2016, Tieto no longer has public insiders³⁾. Tieto however will disclose the ownership information of the members of the Board of Directors, President and CEO and members of the Leadership Team quarterly.

Tieto has specified that the Board of Directors and the President and CEO of the parent company Tieto Corporation are subject to the requirement to notify their transactions. In addition, Tieto has set restrictions on trading for the members of the Leadership Team, persons participating in the preparation of interim reports and financial statements as well as other persons who are considered to receive information of a confidential and sensitive nature in their position or service.

The managers and other persons subject to trading restrictions are prohibited from dealing in Tieto's shares or other financial instruments during the closed period. The closed period covers 30 calendar days before the disclosure of an interim financial report or a financial statement release including the date of disclosure (= 30 + 1 days).

At Tieto, the General Counsel is in charge of insider administration. Tieto's Legal department shall monitor the compliance with the insider regulation and takes care of necessary guidance and training.

³⁾ Situation as per 2 July 2016 can be found: www.tieto.com/tieto-investor-information-and-investorrelations/tietos-governance/insiders/insider-register

Auditors

The ARC prepares a proposal on the appointment of Tieto's auditors, which is then presented to the Board and finally to the AGM for its decision. The compensation paid to the auditors is decided by the AGM and assessed annually by the ARC.

The Board of Directors proposes to the Annual General Meeting, in accordance with the recommendation of the Audit and Risk Committee of the Board of Directors, that the auditor to be elected at the AGM 2017 be reimbursed according to the auditor's invoice and in compliance with the purchase principles approved by the Committee.

The Board of Directors proposes to the Annual General Meeting, in accordance with the recommendation of the Audit and Risk Committee of the Board of Directors, that the firm of authorized public accountants PricewaterhouseCoopers Oy be re-elected as the company's auditor for the financial year 2017. The firm of authorized public accountants PricewaterhouseCoopers Oy has notified that Tomi Hyryläinen, Authorized Public Accountant, will act as the auditor with principal responsibility.

The Audit and Risk Committee has prepared its recommendation in accordance with the EU Audit Regulation and in a full-scale selection procedure. The Committee has comprehensively assessed the received offers against the predefined selection criteria. In addition to knowledge and competences, the Committee has considered the quality and expense risk related to the change of the auditor and, on the other hand, the integrity of the auditor. In its recommendation to the Board of Directors, the Audit and Risk Committee placed second the firm of authorized public accountants Ernst & Young Oy.

Auditing

The AGM 2016 re-elected the firm of authorized public accountants PricewaterhouseCoopers Oy as the company's auditor for the financial year 2016. PricewaterhouseCoopers Oy notified the company that authorized public accountant Tomi Hyryläinen acts as chief auditor. In 2016, Tieto Group paid the auditors a total of EUR 0.8 (0.7) million in audit fees, of which EUR 0.8 (0.7) million to the Group's auditor PricewaterhouseCoopers Oy, and a total of EUR 0.9 (1.0) million for other services, of which EUR 0.8 (0.9) million to the Group's auditor

Remuneration Statement

The aim of Tieto's remuneration principles is to attract and retain talent, motivate key people and align the goals of the company's shareholders and executives in order to enhance the value of the company.

Rules on how the company shall compensate its employees are defined in Tieto's HR Policy and related rules. The policy is globally applied to all Tieto entities and units to support the company's strategy, objectives and values.

Remuneration of the Board of Directors is decided by the AGM based on a proposal by the SNB. The RC is responsible for planning the remuneration of the Leadership Team members and preparing the principles underlying the remuneration of Tieto personnel. The Board of Directors decides on the remuneration of the President and CEO and other members of the Leadership Team based on a proposal by the RC.

Remuneration of the Board

According to the decision of AGM 2016, the annual remuneration of the Board of Directors is the following:

- EUR 83 000 to the Chairman,
- EUR 52 500 to the Deputy Chairman and
- EUR 34 500 to the ordinary members of the Board of Directors.

The same fee as to the Board Deputy Chairman will be paid to the Chairman of Board Committee unless the same individual is also the Chairman or Deputy Chairman of the Board. In addition, remuneration of EUR 800 is paid for each Board meeting and each permanent or temporary committee meeting.

Further, the AGM 2016 decided that 40% of the fixed annual remuneration will be paid in Tieto Corporation's shares purchased from the market. No restrictions have been set on Board members concerning how they may assign these shares, but the company recommends that Board members should retain ownership of all the shares they have received as remuneration for as long as they serve on Tieto's Board.

In addition to the aforementioned share remuneration, the Board members do not belong to or are not compensated with other share-based arrangements, nor do the members have any pension plans at Tieto. Tieto executives or employees are not entitled to compensation for their Board positions or meeting attendance in the Group companies. None of the Board members, except the personnel representatives, have an employment relationship or service contract with Tieto.

Compensation of individual Board members and Board in 2016 ⁴⁾

	Annual remuneration		Meeting based, EUR
	EUR (60%) ⁵⁾	Shares (40%) ⁶⁾	
Markku Pohjola (Board and RC Chairman)	49 280	1 391	13 600
Kurt Jofs (Deputy Chairman and ARC Chairman) ⁷⁾	31 167	880	14 400
Teuvo Salminen (ARC Chairman) ⁸⁾	N/A	N/A	1 600
Harri-Pekka Kaukonen ⁹⁾	20 488	578	11 200
Johanna Lamminen ⁹⁾	20 488	578	11 200
Eva Lindqvist ⁸⁾	N/A	N/A	1 600
Sari Pajari	20 488	578	13 600
Endre Rangnes	20 488	578	12 800
Jonas Synnergren	20 488	578	13 600
Lars Wollung	20 488	578	12 800
In total	EUR 203 377	Shares 5 739	EUR 106 400

Board of Directors' shareholdings in Tieto ¹⁰⁾

Name	At 31 Dec 2016	At 31 Dec 2015
Markku Pohjola (Board and RC Chairman)	27 391	26 000
Kurt Jofs (Deputy Chairman, ARC Chairman) ⁷⁾	12 445	11 565
Harri-Pekka Kaukonen ⁹⁾	578	N/A
Eva Lindqvist ⁸⁾	N/A	4 185
Johanna Lamminen ⁹⁾	578	N/A
Sari Pajari	3 596	3 018
Endre Rangnes	1 853	1 275
Teuvo Salminen ⁸⁾	N/A	10 345
Jonas Synnergren	3 596	3 018
Lars Wollung	1 219	641

⁴⁾ The Board members have not received any other benefits.

⁵⁾ Gross compensation before taxes.

⁶⁾ Shares were purchased and delivered in April 2016.

⁷⁾ ARC Chairman as from 22 March 2016.

⁸⁾ Board member until 22 March 2016.

⁹⁾ Board member as from 22 March 2016.

¹⁰⁾ Corporations over which the Board members exercise control did not have shares nor share-based rights on 31 December 2016.

Remuneration of the Leadership Team

Remuneration of the Leadership Team members consists of

- base salary and benefits
- short-term incentives: an annual bonus
- long-term incentives, such as option or other share-based programmes and pension plans.

Short-term incentives

The purpose of the annual bonuses is to reward for company and individual performance. Tieto's bonus system is based on company-level and individual measurable targets. Weighting of the reward factors for the President and CEO and other Leadership Team members is described in a separate table. The reward targets are set annually by the Board of Directors.

The bonus for the President and CEO is 50% and for other Leadership Team members 30% of the annual base salary when the performance is at expected level; the maximum bonus for the President and CEO is 100% and for the other Leadership Team members 60%. The amount of bonuses is decided by the Board of Directors after the financial statements have been prepared and the bonuses are then paid by the end of May.

Share-based long-term incentives

Tieto has had two types of share-based long-term incentive arrangements: the Long-Term Incentive Plans and option programmes.

The terms and conditions of all share-based plans are approved by the Board of Directors.

Long-Term Incentive Programme 2012-2014 covered the Leadership Team members and approximately 85 key employees. The first performance period began on 1 January 2012 and the final performance period ended on 31 December 2014. Individual performance periods are followed by a restriction period of two years for the executive management or one year for the other participants, during which the earned shares are not disposable.

Long-Term Incentive Plan (LTI) 2015-2017 covers Leadership Team members and approximately 130 key employees. The plan consists of Performance Shares and Restricted Shares. The performance period is three years from 1 January 2015 till 31 December 2017. If the set performance metrics and other requirements are met the shares are delivered to the participants in spring 2018.

Long-Term Incentive Plan (LTI) 2016-2018 covers Leadership Team members and approximately 120 key employees. The plan consists of Performance Shares and Restricted Shares. The performance period is three years from 1 January 2016 till 31 December 2018. If the set performance metrics and other requirements are met the shares are delivered to the participants in spring 2019.

The authorizations required by the Board to repurchase the company's own shares and to issue shares shall be proposed to be approved at the AGM on an annual basis. In connection with authorizing the Board to issue shares, the AGM 2016 decided that no more than 700 000 shares, corresponding to less than 1% of all of the shares in the company, may be issued as part of share-based incentive programs. Key principles of Tieto's share plans, such as the basis and size of rewards, are described on the company's website at www.tieto.com/Investors.

Tieto has not established new option plans since AGM 2009. The last option programme 2009 expired when the subscription period for the 2009C series ended on 31 March 2016.

Pension plans

Tieto operates a number of different pension plans in accordance with national requirements and practices. In addition to statutory pension plans, the Leadership Team members are provided with additional pension schemes.

Most of the additional schemes are classified as defined contribution plans.¹¹⁾ In contribution-based plans, the payments to the plans are recognized as expenses for the period to which they relate. After the payment of the contribution, the company has no further obligations in respect of such plans.

In the arrangements for most Finnish members of additional pension plans, annual payments to the plans managed by a pension insurance company amount to 15% or 23% of the participant's annual base salary. The accumulated pension, including return on capital investment, is paid to the participant during a period starting at the age of 60–70, as individually decided by the participant. The annual expenditure related to the pension plans of the President and CEO and CFO amounts to 23% of their annual base salary, while that of other Finnish Leadership Team members covered by the additional pension plans amounts to 15% of their annual base salary. The company provides Leadership Team members based outside Finland with individual pension plans according to local practices.

¹¹⁾ The exception is the scheme of one member who is covered by a fund-based pension system previously adopted by Tieto.

President and CEO

Kimmo Alkio	
Salary	EUR 600 000/year (EUR 50 000/month) including car benefit. Total EUR 600 000.
Benefits	EUR 3 146
Bonus 2016	Not yet determined (EUR 299 894 paid in 2016 for performance in 2015).
Basis of bonus	<p>Target 50% of base salary based on the Group's external revenue, profit, TCV and strategy implementation when achievements meet the targets.</p> <p>Maximum 100% of base salary based on the Group's external revenue, profit, TCV and strategy implementation when achievements exceed the targets.</p> <p>Weighting of the reward factors</p> <ul style="list-style-type: none"> • Profit of the company 30% • External revenue of the company 20% • TCV 20% • Strategy implementation 30%
Additional success-based incentive	<p>An additional success-based incentive can be paid to the President and CEO in 2020. The incentive is subject to Tieto reaching in 2019 challenging profitability targets (EBIT) set by the Board of Directors in accordance with the company's renewed strategy and financial objectives.</p> <p>The maximum gross number of shares to be earned is 50 000, however not exceeding EUR 3 million. The payable incentive includes Tieto's shares and a cash proportion for covering taxes and tax-related costs arising from the reward.</p>
Long-Term Incentive Programme 2012–2014	In spring 2015, a total of 12 742 shares were transferred as a reward from Performance Periods 2014 and 2012–2014 to the President and CEO. The shares are under transfer restriction according to the terms of the programme. Current value of the shares under lock-up amounts to EUR 330 273. ¹²⁾
Share-Based Reward Plan	In January 2017, a total of 4 256 shares were transferred based on the plan run until the end of 2016. The fair value of these shares amounted to EUR 110 316. ¹³⁾
Long-Term Incentive Plan 2015–2017	Entitled to 20 000 Performance Shares if the target levels of the performance metrics are met, 40 000 shares at maximum. The performance period of the plan is 2015–2017. The fair value of these allocations amounts to EUR 451 008. ¹⁴⁾
Long-Term Incentive Plan 2016–2018	Entitled to 20 000 Performance Shares if the target levels of the performance metrics are met, 40 000 shares at maximum. The performance period of the plan is 2016–2018. The fair value of these allocations amounts to EUR 575 424. ¹⁴⁾
Share ownership guideline	The recommended minimum investment in the company's shares corresponds to the executive's one-time annual gross base salary.
Expenditures related to share-based incentives	EUR 350 661
Retirement age	63
Pension expenditure	<p>In 2016, EUR 283 741.</p> <p>In addition to the statutory pension provision: a defined contribution pension plan where the expenditure is 23% of the annual base salary.¹⁵⁾</p>
Period of notice	<p>If the agreement is terminated by Tieto, the period of notice is twelve months.</p> <p>If the agreement is terminated by the President and CEO, the period of notice is six months.</p>
Severance payment	<p>If the agreement is terminated by Tieto, the company shall pay a severance payment equivalent to the base salary and the short-term target incentive for six months in addition to the salary for the notice period.</p> <p>If someone acquires ownership of over 50% of the company's shares or the company is merged with another company as a merging company and if the agreement is terminated by either party within nine months after such acquisition or merger, the company shall pay a severance payment equivalent to the base salary and the short-term target incentive for six months and the monetary value of the maximum amount of shares granted to him in the most recent long-term incentive plan in addition to the salary for the notice period. Should the CEO stay in the company after an acquisition or a merge, he is entitled to the abovementioned outcome of the most recent long-term incentive plan after twelve months after such an acquisition or a merger.</p> <p>If the agreement is terminated by the President and CEO, except in the event of the abovementioned over 50% takeover or merger, the severance payment shall not be paid.</p>

¹²⁾ The fair market value for Long-Term Incentive Programme 2012–2014 is the total value of current grants using the value of the Tieto share on 31 December 2016, EUR 25.92. The number of shares this percentage allocation gives entitlement to will be confirmed after each earning period. In connection to the share delivery, a cash payment was made to cover payroll taxes.

¹³⁾ The fair market value for the Share-Based Reward Plan is calculated using the value of the Tieto share on 31 December 2016, EUR 25.92.

¹⁴⁾ The fair market value for Long-term Incentive Plan 2015–2017 is calculated using the latest performance estimates and the value of the Tieto share on 31 December 2016, EUR 25.92.

¹⁵⁾ Payments to defined contribution plans are recognized as expenses for the period to which they relate. After payment of the contribution the Group has no further obligations in respect of such plans.

Updated information on the shares and options held by the President and CEO is available on the company's website at www.tieto.com/Investors under the insider register.

The table below summarizes the remuneration of the Leadership Team members.

Remuneration of Leadership Team members

Leadership Team (excluding the President and CEO)

Total salaries	EUR 2 678 598
Total benefits	EUR 97 936
Special payments	EUR 0
Total bonuses 2016	Not yet determined (EUR 723 465 paid in 2016 for performance in 2015).
Basis of bonus	<p>The basis of the bonus as well as target and maximum amounts for bonuses vary between the Leadership Team members. The purpose of the bonus is to reward for company performance and individual performance.</p> <p>These two form the overall performance evaluation (OPE). OPE for each LT member is confirmed by the Board.</p> <p>CFO: in addition to individual performance measurement, the bonus is based on company performance, measured by the following factors</p> <ul style="list-style-type: none"> • Profit of the company • External revenue • Cash flow improvement <p>Other LT members: in addition to individual performance measurement, the bonus is based on</p> <ul style="list-style-type: none"> • company and/or • own Industry Group- or Service Line-related performance criteria (operative margin, external revenue and other operational targets)
Long-Term Incentive Programme 2012–2014	<p>The reward to be paid to other members of the Leadership Team on the basis of the Long-Term Incentive Programme 2012–2014 at target corresponds to 30–40% of the annual gross salary and at maximum 60–80% of the annual gross salary.</p> <p>A total of 2 744 shares were delivered in 2016 to LT members (excl. CEO) for Performance Periods 2014 and 2012–2014. The value of the total rewards paid in 2016 was EUR 159 179.</p> <p>A total of 20 776 shares are under transfer restriction according to the terms of the programme. The current value of the shares under lock-up is EUR 538 514.¹⁶⁾</p>
Share-Based Reward Plan	In January 2017, a total of 10 760 shares were transferred to the Leadership Team members based on the plan run until the end of 2016. The fair value of these shares amounted to EUR 278 900. ¹⁷⁾
Long-Term Incentive Plan 2015–2017	Leadership team members are entitled to 97 600 Performance Shares if the maximum levels of the performance metrics are met and 12 000 Restricted Shares. Performance period of the plan is 2015–2017. The fair value of these allocations is EUR 1 411 500. ¹⁸⁾
Long-Term Incentive Plan 2016–2018	Leadership Team members are entitled to 94 000 Performance Shares if the maximum levels of the performance metrics are met and 10 000 Restricted Shares. The performance period of the plan is 2015–2017. The fair value of these allocations is EUR 1 611 446. ¹⁸⁾
Expenditures related to share-based incentives (including option programmes)	EUR 1 082 137
Share ownership guideline	The recommended minimum investment in the company's shares corresponds to the executive's one-time annual gross base salary.
Retirement age	According to applicable local regulations.
Pension expenditure	<p>In 2016, in total EUR 1 349 766.</p> <p>CFO: In addition to the statutory pension provision: a defined contribution pension plan where the expenditure is 23% of the annual base salary.¹⁹⁾ Most other Leadership Team members based in Finland with no earlier pension plans: In addition to the statutory pension provision, defined contribution pension plans where the expenditure is 15% of the annual base salary.¹⁹⁾ The company provides Leadership Team members based outside Finland with individual pension plans according to local practices.</p>
Severance payment	Various terms, amounts corresponding to the periods of notice.

¹⁶⁾ The fair market value for Long-Term Incentive Programme 2012–2014 is calculated using the value of the Tieto share on 31 December 2016, EUR 25.92

¹⁷⁾ The fair market value for the Share-Based Reward Plan is calculated using the value of the Tieto share on 31 December 2016, EUR 25.92.

¹⁸⁾ The fair market value for Long-term Incentive Plan 2015–2017 and Long-term Incentive Plan 2016–2018 is calculated using the latest performance estimates and the value of the Tieto share on 31 December 2016, EUR 25.92

¹⁹⁾ Payments to defined contribution plans are recognized as expenses for the period to which they relate. After payment of the contribution the Group has no further obligations in respect of such plans.

Shareholdings of the Leadership Team ²⁰⁾

	Shares at 31 Dec 2016	Shares at 31 Dec 2015	Options at 31 Dec 2016	Options at 31 Dec 2015
Kimmo Alkio	28 715	39 403	0	0
Håkan Dahlström	3 042	1 000	0	0
Lasse Heinonen	15 778	13 278	0	2 500
Per Johanson	4 465	4 465	0	0
Ari Järvelä	4 956	4 956	0	0
Ari Karppinen	10 504	10 504	0	0
Satu Kiiskinen	3 398	3 398	0	0
Katariina Kravi	3 550	3 550	0	0
Tom Leskinen	100	N/A	0	N/A
Cristina Petrescu	702	N/A	0	N/A

The compensation of the whole Leadership Team in 2016 is also summarized in [note 9](#) of the financial statements. The remuneration statement is available on the company's website at www.tieto.com/Investors.

²⁰⁾ Corporations over which the CEO exercises control did not have shares nor share-based rights on 31 December 2016. Tieto has defined only the Board members and CEO as persons discharging managerial responsibilities. Hence, the company does not have information on the potential corporations of the rest of the Leadership Team.

Letter from the Chairman of the Remuneration Committee

Dear Shareholder,

In early 2016 we launched our new strategy. We also revised the business structure of the company and Leadership Team roles to be better equipped to grow the company in the coming years. We expect that the changes implemented during the year will further improve our competitiveness and financial position in the future.

The Remuneration Committee agenda for 2016 focused on ensuring that the reward practices are market competitive and support strategy execution. Compensation practices in the IT sector vary considerably due to the diverse competition, including large global players, Asian companies as well as smaller local companies and start-ups with innovative niche solutions.

The aim of Tieto's reward practices is to ensure that we can hire and retain key talent and offer market competitive total compensation. Also, we want to reward our employees for high performance in achieving both individual and company objectives. At the same time, we pay attention to constantly ensuring stable cost structures that build a solid foundation for growth.

To recognize the improvement achieved in our financial and commercial performance in the past years and to ensure competitive compensation compared to other Finnish listed companies of similar size, the base salary of the CEO and President was increased by 9% in 2016. In addition, the Board of Directors decided on a special share-based long-term incentive to the CEO related to the successful execution of the new strategy by 2020. The salaries of the Leadership Team members were also reviewed and revised where needed to reflect their new responsibilities and performance.

At the beginning of 2016, the Remuneration Committee approved the incentive payouts for the financial year 2015. Tieto paid out a total of EUR 27.5 million to the management and employees as short-term incentives and bonuses. That reflects the positive development of profitability while the amount is somewhat below the target-level incentives due to the tough targets we had set for ourselves. The 2015 short-term incentive payout to the President and CEO was based on both the agreed financial goals and success in strategy

execution. During the year, the Remuneration Committee also reviewed the short-term incentive performance targets for 2016 and ensured that they are aligned with our new growth strategy. The committee closely followed up the progress and performance throughout the year.

In March 2016, the final share delivery of the 2012–2014 Long-Term Incentive Plan was completed. For the President and CEO and the Leadership Team members, the related shares were already delivered in March 2015. However, the shares have a restriction period of two years and are free to be traded only in 2017.

In early 2016, the Board of Directors approved a new Long-Term Incentive Plan for 2016–2018 based on the recommendation from the Remuneration Committee. The purpose of the Long-Term Incentive Plan is to ensure that the company will meet the long-term targets and to align the interests of the management and shareholders. It is also a key element in the total compensation of the management, which directly links the paid compensation to the company's success. For the 2016–2018 plan, the performance metrics were agreed to be earnings per share, total shareholder return and growth. At the end of 2016, the Remuneration Committee started preparing a new long-term plan for the coming years with a continued focus on growth and profitability.

In 2014, the Board of Directors approved a share-based reward plan beyond the regular Long-Term Incentive Plans. The President and CEO as well as a group of senior leaders, who were identified to be critical for the success of Tieto, were nominated to the plan. The share delivery from the plan took place in early 2017 following the criteria for the plan.

Markku Pohjola

Chairman of the Remuneration Committee

Report by the Board of Directors

HIGHLIGHTS 2016

- Tieto launched new strategy to accelerate innovation and growth.
- Tieto's operating model and structure was aligned with the strategy. The new structure will support Tieto's ambition to be customers' first choice for business renewal.
- Growth will be based on a strong solution foundation built on a dynamic portfolio. Tieto drives scale and repeatability through investments in software businesses, including start-up businesses with exponential growth.
- Year of investments ended with solid performance with IT services growth of 4% and adjusted operating margin of over 10%.

IT market development

- Customers increasingly combine private and public cloud to enable business innovation and agility in a cost-efficient way.
- Solutions supporting automated end-to-end application lifecycle management are gaining ground. These solutions enable faster-paced innovation and reduced cost and time for the process to launch new products and services.
- New technologies will enable a new data-centric ecosystem where customers are provided with personalized experiences – in many cases, by new service providers utilizing automated service deliveries.

It is estimated that in 2016 the market Tieto operates in grew by around 2%. In 2017, the market is anticipated to grow by 2–3%. Emerging services are expected to experience double-digit growth and the decline in traditional services will continue. Sweden is expected to be the fastest-growing market. In Finland, the outlook has somewhat improved while the slow growth of the economy will continue to affect the IT services market.

Digitalization of customers' business – with a twofold agenda of growing revenue through innovation and reducing costs by improved efficiency – continues to drive IT market growth. The majority of organizations are still in the early stages of their digital journey. Many clients already provide digitally enabled customer experiences but integration of services is at a low level. With greater maturity, companies can provide innovative services and even remake the existing markets and create new ones. Customer experience has become one of the most important investment areas while at the same time enterprises put more focus on rebuilding their back-end business processes.

To enhance business value, IT partners need to have strong industry and business insight, technology understanding and the ability to orchestrate new digital services for clients. In line with the changing requirements, SIAM (Service Integration and Management) adoption is accelerating. The SIAM market is moving from customer-managed integrations to a model where the extensive responsibility for integrations is shared by the customer and IT partners.

The cloud becomes the vital underpinning for digital transformation and customers are increasingly combining private and public cloud solutions to enable business innovation and agility in a cost-efficient way. It is estimated that currently around 20–25% of infrastructure services are represented by cloud, predominantly private, with public cloud as an option. Annual growth in the cloud services market is estimated to be around 30%.

Technologies such as the cloud, software robotics, artificial intelligence and blockchain will enable a new data-centric ecosystem where individuals are provided with personalized, predictive experiences. The role of current service providers in multiple industries may radically change and services provided by them may be replaced by automated computer execution, ruled by a business network driven by new vendors. New opportunities arise not only within industries but also in new ecosystems in the intersection of multiple industries, and consequently traditional industry boundaries will be blurred.

Co-creation with partners and customers is becoming more important in order to provide customers with best-of-breed technologies. This trend is accelerated by increasing openness, as open APIs (application programming interface) and open data make collaborative innovation possible.

In IT spending, emerging services are gaining ground while traditional services, such as infrastructure services, are seen as a source of cost reductions. Going forward, IT service providers will continue their investments in service delivery standardization, automation and productivity improvements.

Industry sector drivers

- In the **financial services** sector, the market continues to be active with many large transformation programmes ongoing and planned. After a period of longer decision cycles, demand is picking up in both the Nordic countries and global banking markets. The market is mainly driven by a combination of digital transformation, core system modernization and regulatory changes. There is growing interest in business process outsourcing and software as a service delivered on secure cloud platforms. The market in the Finnish pension segment is active due to the pension legislation reform in 2017.
 - In the **public sector**, the digitalization of services and processes will continue with a focus on cost reductions and citizen-centric services. There is also healthy demand for solutions such as digitalized learning and planning for the education segment. In Finland, Tieto is actively participating in the Government development programme in order to facilitate digitalization in the public sector. In Sweden, the outsourcing trend continues to be strong and there is robust demand for Tieto's cloud services. Demand for consultancy services has also remained strong in Sweden.
 - In the **healthcare and welfare sector**, the digitalization trend will continue to support easier and faster access to healthcare for citizens and compensate for the anticipated shortage of care workers. In Sweden and Norway, plans to further develop electronic health records are in progress. In Finland, it is anticipated that the ongoing healthcare and welfare reform will provide growth opportunities while in the short term, only necessary investments are being started.
 - In the **manufacturing, forest and paper sector**, there is a strong digitalization trend and clients are seeking new business and service models to ensure steady revenues, often based on Industry 4.0/Internet of Things. The market for consulting and business transformation is active. Preventive maintenance is driving digitalization in the manufacturing sector and customer experience can be seen as a strong driver, especially in the forest sector.
- At the same time, only projects with high business value are initiated and clients seek cost savings and automation in traditional IT services. The core process renewals for improved efficiency are moving towards cloud-enabled ERP solutions.
- In the **retail and logistics** sector, enterprises are investing in more advanced solutions to be able to provide a unified customer experience in all interaction across different touchpoints. In addition to consultancy and implementation capabilities to renew eCommerce channels, demand for improving tools for service personnel has remained good. Along with the omnichannel transformation, enterprises need to tightly integrate their customer interface solutions with their core supply chain solutions. In addition, B2B enterprises are expanding from transactional digital services to enhanced user experience.
 - In the **energy** utility sector, differentiation is increasingly based on improved customer interaction. Furthermore, a strong focus on efficiency due to low energy prices continues. As a result, there is interest in investing in customer experience management and modern software-based systems. In the oil & gas market, investment levels have remained low and the focus in the entire industry is still on lower cost. However, due to a global shift towards lower consumption of carbon fuels, the natural gas segment is gradually picking up.
 - The **media** sector is undergoing a huge change with increased deployment of digital services. Advertising is one of the main sources for revenue and related solutions call for renewal. While there are opportunities related to renewal and automation of sales processes, price pressure is high as many companies need to reduce costs.
 - In the **telecom** sector, IT transformation programmes are driven by the need to simplify legacy systems and cut costs as well as by the potential to create additional business value. Telecom operators are moving from customized solutions to sourcing of standardized packaged solutions. IT service providers are experiencing aggressive competition in this sector.

New strategy and implementation

As digitalization gains speed, demand for new data-driven innovations and the renewal of customers' business and IT increases rapidly. Tieto's customers are faced with a dual agenda: to run their existing businesses efficiently while innovating new services.

According to Tieto's new strategy for 2016–2020, announced in March 2016, the company will enhance its competitiveness and growth through three strategic choices:

- Services to accelerate customer value
- Nordic leadership and international expansion
- Active participation in open ecosystems and co-innovation.

Focusing on Nordic enterprises and the public sector, Tieto seeks to grow by further increasing its market share in the Nordics. Growth will also be supported by international expansion of selected industry solutions that have proven to be effective in current markets

Tieto continues to drive shareholder returns above industry average. Positive financial development and attractive dividend policy are expected to continue while the company increases its investments to support innovation and growth.

New operating structure

Tieto's operating model and structure have been aligned with the strategy launched in March 2016. The new structure, effective as from 1 July, will support Tieto's ambition to be customers' first choice for business renewal.

The structure is based on industry groups driving go-to-market activities and service lines as the reportable segments

Industry groups

- Financial Services
- Public, Healthcare and Welfare
- Industrial and Consumer Services

Service lines

- Technology Services and Modernization
- Industry Solutions, including data-driven businesses organized independently of other businesses
- Business Consulting and Implementation
- Product Development Services.

Growth businesses

Tieto is seeking to grow faster than the market in the long term. The company aims to accelerate customer value with end-to-end industry solutions and active modernization of customers' technology landscapes. Additionally, new data-driven businesses help Tieto and its customers to capture the opportunities provided by the data-driven economy.

Tieto drives scale and repeatability through investments in software businesses, including start-up businesses with exponential growth. Industry solutions based on leading industry-specific software products, system integration capabilities and partnerships form the basis for Tieto's differentiation.

Growth will be based on a strong solution foundation built on a dynamic portfolio, starting with around ten solutions proven in current markets.

The portfolio includes the following high-growth businesses, in which the company has increased its investments during the past two years:

- Lifecare, Tieto's solution for the healthcare and welfare sector
- Cloud services
- Customer Experience Management
- Data-Driven Businesses and
- Security Services.

In 2016, aggregated sales of these businesses amounted to around EUR 330 million and growth totalled 18%. Cloud services continued to be the strongest area with full-year growth of 36%. During the fourth quarter, Tieto launched OneCloud, a dynamic solution allowing customers to efficiently manage multiple cloud services through one platform.

Security Services focused on enhancing its service portfolio, including own software as well as integration of third-party products, with a focus on providing customers with end-to-end asset visibility and protection with simplicity. Security Services saw full-year sales increase by 16% with growth accelerating in the second half of the year. In Customer Experience Management (CEM), the new Industrial Experience offering has been well received. Industrial Experience, targeted at business-to-business clients, is helping customers expand from transactional digital services to solutions providing improved user experience. CEM posted full-year growth of around 35%, supported by the acquisition of Smilehouse in December 2015. Lifecare's full-year growth was 6%.

Data-Driven Businesses have started to generate and deploy data-driven ideas together with customers and the Nordic start-up ecosystem. The business currently employs around thirty talents and the focus is on building the innovation and incubation pipeline. By the end of 2016, the unit had brought a few of its cases into commercialization mode. Tieto's data-driven solution in the healthcare and welfare sector drives personalized and efficient healthcare and health management by maximizing the wellbeing of individuals while reducing the costs of public health and social care operations. Tieto's Intelligent Building is a human-centric, data-driven concept that provides customers with benefits such as improved working experience and better utilization of assets.

Additionally, Tieto has increased its investments in industry solutions targeted at Nordic markets, such as

- Banking (Financial Services)
- SmartUtility (Energy)
- Case management solution (Public sector), as well as spearhead solutions driving international expansion
- Payments (Financial Services)
- Production Excellence (Manufacturing) and
- Hydrocarbon Accounting (Oil & Gas).

Performance drivers

The simultaneous market requirements for extreme productivity and innovation are increasing. To manage this dual challenge and support its customers in their business renewal, Tieto will continue actions to drive its competitiveness and to enable continued investments in innovation and growth.

In IT services, Tieto aims to grow faster than the market in 2017. In 2016, Tieto completed the acquisition of Emric, the Nordic market leader in software and services for credit processing, which will also affect sales in 2017. Emric's annual sales amount to around EUR 20 million, of which around EUR 7 million was visible in 2016.

In addition to sales growth, performance drivers in 2017 include

- recruitments in new service areas and related competence development
- salary inflation
- offering development
- automation and industrialization in service deliveries.

Investments in high-growth businesses and automation are expected to support profit improvement in the mid term while resulting in short-term pressure on the margin. Recruitments of new talent within growth areas include industry and solution consultants, architects and software developers. During 2016, Tieto added around 800 new competences in IT services while reductions based on efficiency programmes amounted to close to 200. Personnel costs related to recruitments during the year, driving mid- and long-term growth for Tieto, resulted in an increase of around EUR 20 million in aggregated personnel expenses in 2016. Salary inflation amounted to around EUR 18 million in 2016.

As a part of its long-term renewal and the need to increase its productivity and price competitiveness, Tieto has initiated actions to optimize its productivity and cost structure globally. In Finland, Tieto started personnel negotiations affecting up to 250

employees, of which up to 180 in the Transformation Services and Modernization service line and the remainder mainly in the Public, Healthcare and Welfare industry group and Support Functions. The company expects that the actions altogether, including the anticipated reductions in Finland, will result in annualized gross savings of close to EUR 40 million. It is estimated that over EUR 20 million in savings will affect the cost base for 2017, mainly in the second half.

In 2017 overall, Tieto's restructuring needs will be based on automation, other productivity improvements and the need to align the company's competence base with market demand. Tieto currently estimates that its full-year restructuring costs in 2017 will represent 1–2% of Group sales.

The company will continue to renew and strengthen its service and solution portfolio in promising growth areas during the year with a special focus on software-based industry solutions. In 2016, offering development costs amounted to around EUR 75 million, up by EUR 15 million, and totalled 5.0% of sales. EUR 12 million of the increase is attributable to Industry Solutions, including new data-driven businesses. Offering development costs in 2017 are anticipated to remain at the 2016 level and at around 5% of Group sales. Capital expenditure (CAPEX) is anticipated to remain below 4% of Group sales.

Financial performance

Tieto’s new operating structure, effective from 1 July, will support Tieto’s strategy execution. This report is based on the new structure, comprising service lines and industry groups. New comparison figures and additional material bridging the current structure with the prior one are available at www.tieto.com/investors.

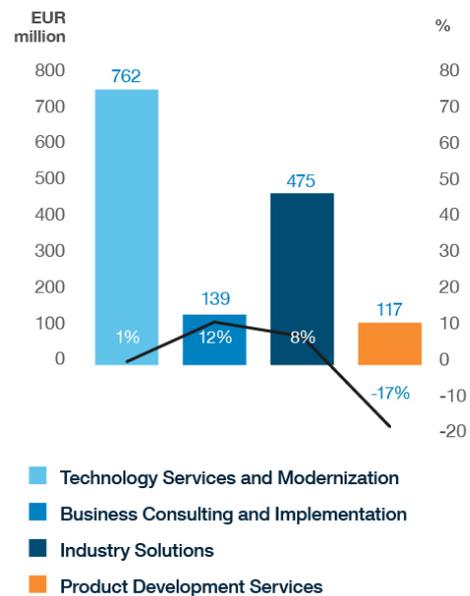
Full-year net sales increased by 2.2% to EUR 1 492.6 (1 460.1) million, growth of 3.2% in local currencies. In IT services, net sales were up by 4.3%, in local currencies up by 5.3%.

In Product Development Services, sales were down by 17.3% partly due to insourcing by one key customer whose projects ended after the first quarter of 2015. The acquisitions added EUR 50 million in sales, affecting Industry Solutions (EUR 34 million) and Business Consulting and Implementation (EUR 16 million). Divestments implemented in 2015 had a negative impact of EUR 5 million, affecting Industry Solutions. Currency fluctuations had a negative impact of EUR 15 million on sales, mainly due to the weaker Swedish and Norwegian Krona.

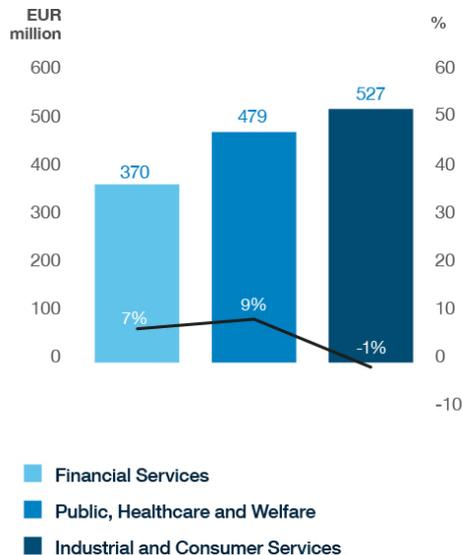
Net sales and growth



Net sales and growth by service line



Net sales and growth by industry group



Net sales by quarter, EUR million



Full-year operating profit (EBIT) amounted to EUR 140.8 (125.2) million, representing a margin of 9.4% (8.6). Adjusted¹⁾ operating profit stood at EUR 152.2 (150.8) million, or 10.2% (10.3) of net sales. Further details on the adjustments are available in a table on page [Reported alternative performance measures](#). For IT services, adjusted operating profit rose to EUR 141.1 (136.4) million, mainly due to the automation and industrialization programme in Technology Services and Modernization. Operating profit included allocated acquisition-based amortization of EUR 3.3 million. Additionally, customer debt restructurings had a negative impact of EUR 1.7 million.

Cost savings, mainly related to the automation programme and industrialization of application management services, had a positive effect of around EUR 29 million on IT services' operating profit while the positive impact of gross savings was curbed by around EUR 18 million in salary inflation, around EUR 20 million in costs for recruitments in new service areas and the increase of EUR 15 million in offering development costs.

The performance-based incentive accruals, including both short-term and long-term incentives, were EUR 25.6 (32.4) million. Currency changes had a negative impact of over EUR 3 million on operating profit. The negative effect was mainly attributable to the Swedish and Norwegian Krona.

Depreciation and amortization amounted to EUR 53.9 (56.6) million. Net financial expenses stood at EUR 4.0 (5.9) million in the full year. Net interest expenses were EUR 2.1 (2.2) million and net losses from foreign exchange transactions EUR 1.1 (2.4) million. Other financial income and expenses amounted to EUR -0.8 (-1.3) million.

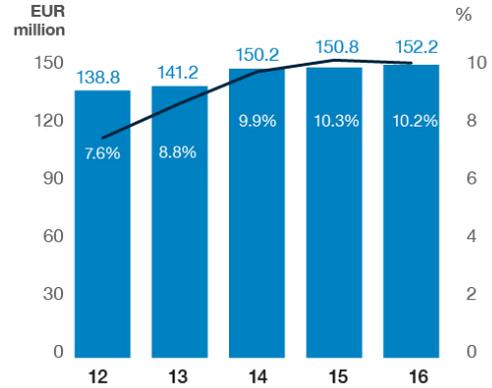
Full-year earnings per share (EPS) totalled EUR 1.46 (1.23). Adjusted¹⁾ earnings per share amounted to EUR 1.58 (1.51).

¹⁾ adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items

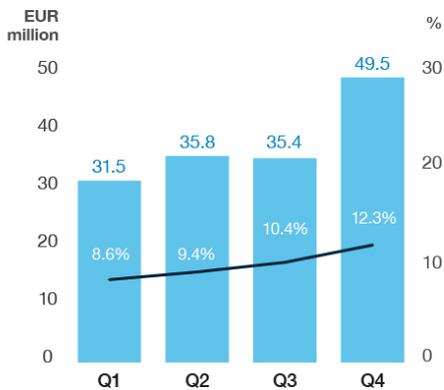
Operating profit (EBIT) and margin



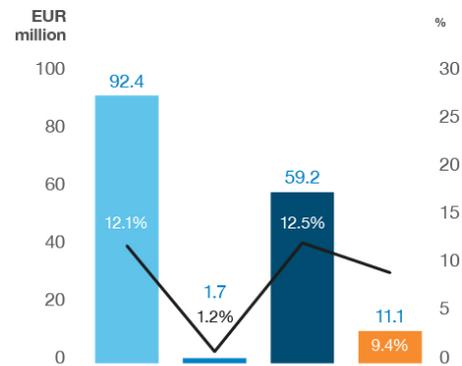
Adjusted operating profit (EBIT) and margin



Adjusted operating profit (EBIT) and margin by quarter



Adjusted operating profit (EBIT) and margin by service line



- Technology Services and Modernization
- Business Consulting and Implementation
- Industry Solutions
- Product Development Services

Financial performance by service line

EUR million	Customer sales 1-12/2016	Customer sales 1-12/2015	Change, %	Operating profit 1-12/2016	Operating profit 1-12/2015
Technology Services and Modernization	762	755	1	89.0	65.5
Business Consulting and Implementation	139	125	12	4.1	1.5
Industry Solutions	475	439	8	55.2	65.4
Product Development Services	117	142	-17	10.9	15.6
Support Functions and Global Management				-18.5	-22.8
Total	1 493	1 460	2	140.8	125.2

Operating margin by service line

%	Operating margin 1-12/2016	Operating margin 1-12/2015	Adjusted ¹⁾ operating margin 1-12/2016	Adjusted ¹⁾ operating margin 1-12/2015
Technology Services and Modernization	11.7	8.7	12.1	11.7
Business Consulting and Implementation	3.0	1.2	1.2	2.5
Industry Solutions	11.6	14.9	12.5	14.0
Product Development Services	9.3	11.0	9.4	10.3
Total	9.4	8.6	10.2	10.3

¹⁾ adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items

In **Technology Services and Modernization**, sales of cloud services were up by 36% and represented 22% of infrastructure services sales. Additionally, shared, standardized workspace services posted strong growth. At the same time, the market for traditional infrastructure and application services continued to decline. Service standardization and automation continued, reflecting the shift from traditional services to emerging services. Adjusted operating profit was up due to the savings related to the automation programme, initiated in 2015.

In **Business Consulting and Implementation**, sales growth of 12% is supported by the acquisition of Smilehouse and Imano. Demand remained strongest in Customer Experience Management and consulting services. Organically, sales remained at the previous year's level, partly due to some delays in decision making and lower project business volumes for one customer in the telecom sector, which resulted in an unsatisfactory utilization rate, especially in the Enterprise Applications area. Operating profit was also affected

by investments in growth areas, comprising mainly increased sales costs.

In **Industry Solutions**, sales growth of 8% was driven by the acquisition of Software Innovation and Emric. Organically, sales were up by over 6% in the Public, Healthcare and Welfare segment and by 4% in the Financial Services segment. In the oil and gas segment, market conditions remained challenging. Operating profit was down due to investments in growth businesses, including an increase of close to EUR 12 million in offering development costs as well as recruitments.

In **Product Development Services (PDS)**, sales were down due to insourcing by one key customer whose projects ended after the first quarter of 2015 and a few anticipated end-of-life projects while Tieto has won new agreements in new growing areas. Operating profit was down due to the fact that the figure for the first quarter in 2015 was exceptionally high, as it included income related to temporary commercial terms. The utilization rate improved from the previous year and the existing business has a healthy cost structure.

Customer sales by industry group

EUR million	Customer sales 1–12/2016	Customer sales 1–12/2015	Change, %
Financial Services	370	347	7
Public, Healthcare and Welfare	479	439	9
Industrial and Consumer Services	527	533	-1
IT services	1 376	1 318	4
Product Development Services	117	142	-17
Total	1 493	1 460	2

In **Financial Services**, volumes with the largest customers were on the rise. New projects driving IT efficiency and digital services, especially in Finland, were the main contributor to the growth. Additionally, the acquisition of Emric had a positive impact of EUR 7 million on sales.

In **Public, Healthcare and Welfare**, growth was supported by the acquisition of Software Innovation.

Industry Solutions posted growth of around 19%, organically 6%. Additionally, transition projects in infrastructure services in Finland contributed to growth.

In **Industrial and Consumer Services**, sales were down due to lower project business volumes for one customer in the telecom sector and lower sales in the challenging oil and gas segment. Development in energy utilities was positive. The acquisition of Smilehouse and Imano had a positive impact of EUR 19 million on sales.

M&A impact by service line

	Growth, % (in local currencies) 1–12/2016	Organic growth, % (in local currencies) 1–12/2016
Technology Services and Modernization	1.5	1.5
Business Consulting and Implementation	12.3	-0.6
Industry Solutions	9.8	3.1
IT services	5.3	1.9
Product Development Services	-16.1	-16.1
Total	3.2	0.1

M&A impact by industry group

	Growth, % (in local currencies) 1–12/2016	Organic growth, % (in local currencies) 1–12/2016
Financial Services	7.3	5.3
Public, Healthcare and Welfare	9.9	4.3
Industrial and Consumer Services	-0.4	-3.1
IT services	5.3	1.9
Product Development Services	-16.1	-16.1
Total	3.2	0.1

Cash flow and financing

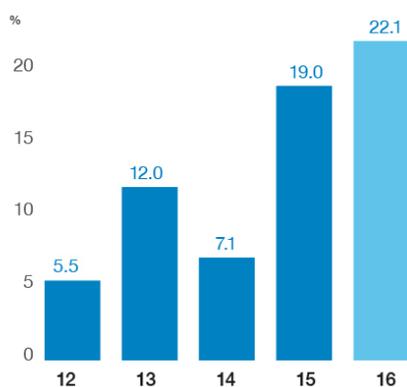
Net cash flow from operations amounted to EUR 97.2 (132.6) million, including the increase of EUR 51.6 (15.0) million in net working capital. The increase in net working capital is mainly attributable to increased accounts receivable and other receivables, and lower level of restructuring-related provisions. Accounts receivable was at a high level as the due date at the turn of the year transferred a substantial amount of cash flow to the first week of 2017.

Tax payments were EUR 37.6 (20.4) million in the full year. In January 2016, Tieto paid EUR 6.0 million based on the transfer pricing audit for tax years 2009–2013 in Finland. The decision has been appealed.

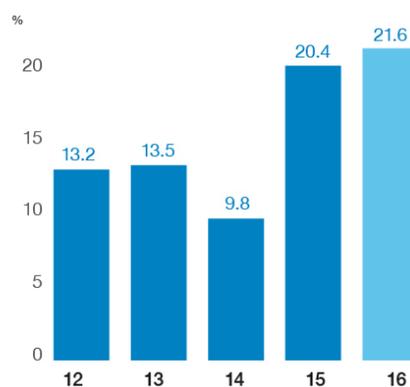
The equity ratio was 47.3% (46.2). Gearing increased to 22.5% (2.7). Interest-bearing net debt totalled EUR 109.7 (13.2) million, including EUR 166.9 (171.3) million in interest-bearing debt, EUR 5.5 (6.7) million in finance lease liabilities, EUR 5.7 (8.1) million in finance lease receivables, EUR 0.3 (0.5) million in other interest-bearing receivables and EUR 56.7 (156.2) million in cash and cash equivalents.

The EUR 100 million bond matures in May 2019 and it carries a coupon of fixed annual interest of 2.875%. Interest-bearing long-term loans amounted to EUR 103.8 million at the end of December. Interest-bearing short-term loans amounted to EUR 68.6 million, mainly related to commercial papers and joint venture cash pool balances. The syndicated revolving credit facility of EUR 150 million maturing in May 2020 was not in use at the end of December.

Return on equity, %



Return on capital employed, %



Investments and development

Tieto is seeking to grow faster than the market in the long term. Tieto will accelerate its high-growth businesses through investments in offering development and new competencies as well as acquisitions. In the full year, the number of full-time employees rose by a net amount of around 800. Additionally, the company will continue to invest in standardization and automation to drive improvements in productivity and quality.

Full-year capital expenditure totalled EUR 61.6 (50.5) million, of which paid EUR 61.7 (43.7) million. Capital expenditure represented 4.1% (3.5) of net sales and was mainly related to data centres. Net payments for acquisitions totalled EUR 32.3 (73.7) million.

Capital expenditure also included EUR 9.6 million in Tieto's head office. Costs related to premises, however, are expected to decline due to improved premise efficiency. The rental agreement for one large office in the capital area ended on 31 December 2016.

Tieto's offering development costs amounted to around EUR 75 million in 2016, representing 5.0% of Group sales (EUR 60 million in 2015, representing 4.1% of net sales). These costs comprise service and product development focusing on, for example, industry solutions, Customer Experience Management and Security Services, as well as cloud services. Additionally, the costs for related internal development, e.g. automation in infrastructure services, are included in this amount. No development costs were capitalized for either 2016 or 2015.

Order backlog

In the full year, Total Contract Value (TCV) amounted to EUR 1 669 (1 902) million. Full-year book-to-bill stood at 1.1 (1.3). The total value, including the part beyond the notice period, is included in the TCV.

The order backlog amounted to EUR 1 847 (2 030) million. A growing part of Tieto's business is based on subscription-based sales, which also affects the order backlog. Of the backlog, 49% (46) is expected to be invoiced during the current year.

Major agreements

During the year, Tieto signed a solid number of new agreements with customers across all the industry groups. However, according to the terms and conditions of these agreements, Tieto is not able to disclose most of the contracts.

In February, Tieto signed a five-year agreement with Skandiabanken ASA to provide funds and securities solutions. The agreement is an important business enabler to Skandiabanken ASA as an independent Norwegian bank and a step in strengthening both companies' foothold in Norway.

In February, Scandinavia's largest online fashion store Nelly.com turned to Tieto to help it provide a better customer experience. Through Tieto's Customer Care as a Service (CCaaS), Nelly.com will be able to offer personal shopping service. The three-year contract comprises a cloud-based solution covering all channels: web, voice, chat, email and social media. CCaaS is a complete customer service solution based on the industry-leading Genesys platform.

In February, Tieto signed an agreement with leading Nordic metals company Boliden to deliver a solution for end-user services that will standardize the company's global IT workplace processes. The standardized platform will be based on Tieto Energized Workplace, a comprehensive set of tools that give users easier access to applications, ensure secure data and help enable a more mobile workforce. The contract is valid for three years with an option to extend by two additional years.

In February, the Swedish Research Council, a public agency that advises the government on scientific research, chose Tieto as its partner to modernize IT operations with cloud-based services and solutions. The deal is valid for four years and has an estimated value of SEK 20 million.

In March, Tieto signed an agreement with Volvo Car Retail Solutions (VCRS) to provide the company with cloud services.

The three-year agreement covers the Nordic countries and has a total value of over EUR 3 million.

In May, Tieto signed an agreement with the Municipality of Bergen to provide a case and records management solution. The solution provides a platform for offering extended and improved digital services to citizens, businesses and employees. The agreement has a term of 12 years and a total value of NOK 24 million.

In May, Tieto signed an agreement with Sparbanken Syd for the bank's securities business. The agreement is valid for five years and covers IT systems, operations and back office services. The new solutions support the entire process from order to settlement of securities, enabling Sparbanken Syd to provide future-oriented funds and securities offerings while ensuring cost-efficient and secure operations to its customers.

In May, Tieto signed an agreement with Ahlstrom, the global fibre-based materials company, to deliver a manufacturing execution system and order-to-cash ERP system. With the agreement, Ahlstrom aims for improved and more effective end-to-end service management. The agreement has a total value of EUR 4.8 million.

In June, the Finnish Government ICT Centre Valtori and Tieto signed a frame agreement extension on data centre and capacity services. Tieto has been delivering data centre and capacity services to Valtori since 2014. The agreement has a term of five years and a total value of EUR 15.1 million.

In September, Tieto entered into a strategic partnership with Lyse, a leading Norwegian energy and technology group. Tieto was selected to deliver cloud solutions, infrastructure operations and data centre services to the client. The agreement also includes the transfer of 25 IT professionals from Lyse Link. Furthermore the agreement involves significant R&D and innovation initiatives in a number of relevant areas. The scope of the agreement is a minimum of EUR 30 million in a period of over five years, of which the last two are optional.

In September, Kesko and Tieto signed a significant agreement whereby Tieto will modernize a large part of Kesko's application and infrastructure services. The aim is to accommodate Kesko's strategic priorities for growth and efficiency. The contract covers a wide range of services, including application management of Kesko's business critical applications, business integration and project services, lifecycle management of SAP applications, end-user services and infrastructure services.

In September, S Group chose Tieto to fully modernize and standardize its retail information system by 2020. With the agreement, S Group aims for improved retail trade and development of digital services. The agreement has a total contract value of EUR 20 million.

In September, Tieto signed an agreement with the world-leading air filter manufacturer Camfil to take over a significant part of their infrastructure for their European business. Tieto will deliver a standardized cloud-based solution including infrastructure and application operations. This will enable Camfil to grow fast and reduce capital expenditure. The agreement has a term of three years with an option of two additional years. The order value is estimated to amount to SEK 40 million during first three years.

In September, Tieto signed a five-year agreement with the Church of Sweden to digitalize the organization's document and case management. The new solution will enable employees to work in a more mobile, structured and efficient manner. Tieto's solution, Public 360, will enable a gradual transition toward digital management of everything from registering incoming cases to handling documents.

In October, Tieto was chosen as Kalmar's partner to expand and enhance its future B2B eCommerce platform. The new solution from Tieto forms an integrated selling platform for Kalmar with better collaboration and enhanced user experience for customers worldwide. With this implementation, Kalmar seeks to increase their online sales and reduce sales administration.

In November, Tieto signed a five-year agreement with COOP Mitt & Väst, one of the largest food retailer chains in Sweden. The scope of services includes End User Support, Workplace, Network, Print and Cloud. The agreement has a total value of EUR 6 million.

In November, energy company Fortum chose Tieto Smart Utility to support its Swedish operations. Tieto's Software as a Service (SaaS) solution optimizes the company's core business activities in billing, customer service and sales. The new system

will serve approximately 1.5 million customers in total.

In December, Tieto and Folksam signed a three-year extension of their existing Application Operations agreement. The total value of the agreement is SEK 330 million, including the one-year extension signed in August. The agreement includes two optional years. The focus will be on continuing the modernization of Folksam's infrastructure as well as application operations.

In December, Tieto signed an agreement with Arek, a service provider for pension companies in Finland, to provide infrastructure services. The six-year agreement includes a one-year transition part in addition to infrastructure services.

In December, Tieto signed an extension to the existing agreement with Etera for infrastructure services. The agreement is valid for five years.

In December, Tieto signed an agreement with Marginalen Bank to provide PCI DSS certified end-to-end card services. The card solution will be provided as a service using cloud-enabled technology and will also include business process outsourcing. The agreement is valid for five years and will provide the bank with a scalable and cost-efficient solution that complies with the regulatory requirements.

Business transactions

In May, Tieto acquired all shares in Tieto Estonia Services OÜ, a subsidiary previously owned by Tieto (60%), SEB (20%) and Swedbank (20%).

In September, Tieto signed an agreement to acquire Eemic, the Nordic market leader in software and services for credit processing. The acquisition will strengthen Tieto's position as a business renewal partner for Nordic financial services customers.

Tieto expects the transaction to contribute to the company's ambition to accelerate its scalable software business and to be accretive to the company's growth and profit targets as from 2017. In 2015, Eemic's net sales amounted to around EUR 20 million and the number of employees to around 200.

In September, Tieto acquired the software assets and related rights from Oppad, a provider of administrative solutions for schools and daycare in Norway. The aim is to strengthen the company's digital offering in the education sector.

Personnel

The number of full-time employees amounted to 13 876 (13 083) at the end of December. The number of full-time employees in the global delivery centres totalled 6 643 (6 039), or 47.9% (46.2) of all personnel.

In the full year, the number of full-time employees rose by a net amount of around 800. Acquisitions added close to 200 employees, recruitments increased the number of personnel by a net of around 800 and redundancies amounted to around 200.

The 12-month rolling employee turnover stood at 10.5% (9.9) at the end of December.

Salary inflation is expected to remain at around 3% on average in 2017. In offshore countries, salary inflation is clearly above the average. In Finland, Tieto reached an agreement on the national Competitiveness Pact, effective 13 January 2017. Based on the agreement, annual working time will increase by around two working days in Finland.

Tieto's Human Resources continued to support the company's renewal in 2016. Employee experience has become a vital part of Tieto's Open Source culture. The move to the new head office in Finland and decision to adopt a new Human Capital Management tool are examples of this development. Both took place in 2016 and are greatly driven by employee experience.

To facilitate the execution of the new strategy and operating model, Tieto is fostering an Open Source culture based on openness and transparency, where employees feel empowered and can influence their work and build an inspiring working environment. During 2016, this cultural aspiration was expanded to cover the full employee experience.

One important element in building the employee experience is the development and renewal of the physical working environment, internal tools and practices. At the end of 2016, employees

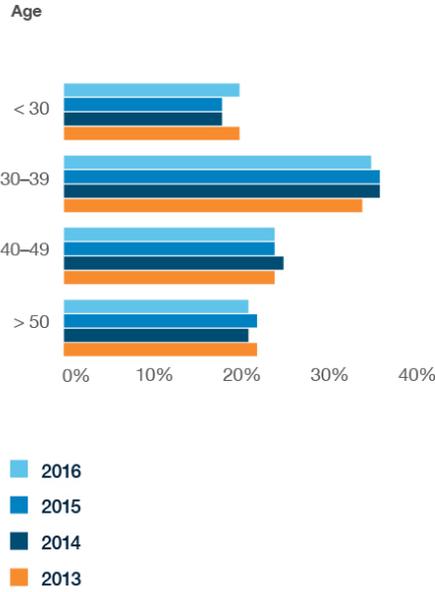
moved to the new head office in Keilalahti, Espoo, Finland. The office features highly collaborative and activity-based premises supporting different working modes with the overall aim of fuelling interactions and innovation. The company's aim is to introduce similar more empowering and engaging ways of working across Tieto's offices worldwide, enabling greater mobility, for instance. The Keilalahti building also applies Tieto's own Intelligent Building concept.

Collaboration and co-innovation throughout the eco-system is an important part of Tieto's strategy execution. In 2016, Tieto started working on a platform-based resourcing option. During the year, Tieto also began preparing for the digitalization of HR information and practices with the next generation Human Capital Management (HCM) platform – Workday. This cloud-based solution was successfully launched in January 2017. The aim is to simplify and unify HR processes from an end-user perspective. Workday provides employees and managers with real-time access to all essential people data from one place, through any device and at any time. Going forward, it will be possible to build analytics capability at Tieto HR, adding increased value to people as well as business.

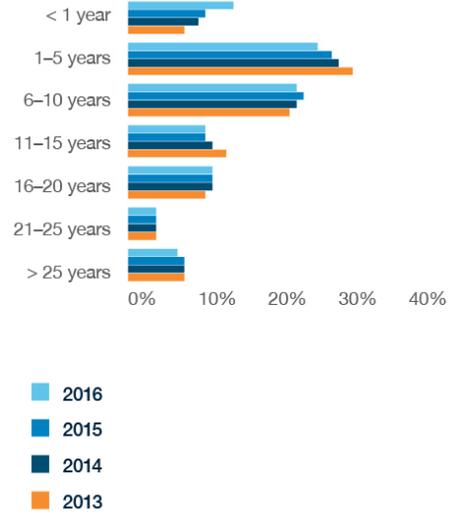
Two strategy pulse surveys were conducted during the year, replacing the former yearly Voice survey for measuring employee engagement. These served as important checkpoints of employees' understanding and views about the new strategy and Tieto as an employer. The overall employee engagement score, measured in autumn 2016, reached 71%, which is slightly better than the year before.

Tieto's Human Resources (HR) is responsible for developing people practices in Tieto. The HR function is led by the Group-level Head of HR, while country HR teams are responsible for country-specific HR operations. In addition, Business HR support is also assigned to the respective Service Lines and Industry Groups.

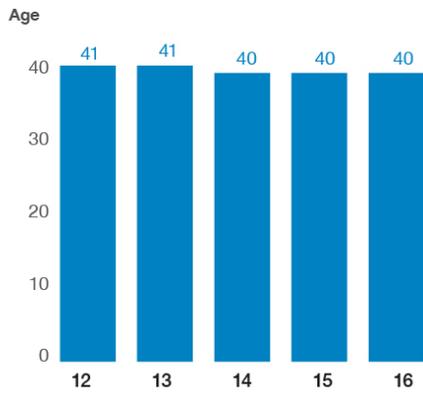
Personnel by age



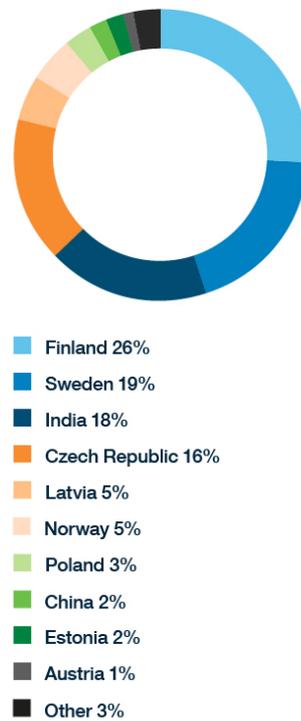
Length of employment



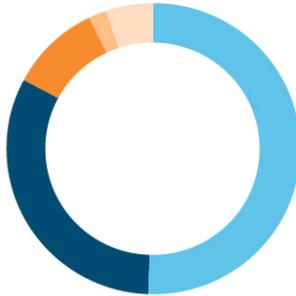
Average age of employees, 2012-2016



Personnel by country



Personnel at 31 Dec 2016



- Technology Services and Modernization 45%
- Business Consulting and Implementation 10%
- Industry Solutions 29%
- Product Development Services 9%
- Industry Groups 2%
- Support functions and global management 5%

Environment

Tieto supports a preventative approach to environmental challenges and a responsible way of conducting business operations. The company is included in several sustainability indices and has also been certified according to the ISO 14001 international standard on environmental management systems.

In 2016, Tieto renewed its commitment to the United Nations Global Compact (UNGC). The UNGC is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

The management of Tieto's environmental impact mainly focuses on energy consumption (heating, cooling and electricity) for running data centres, offices and other facilities, and on business travel and the use of paper and other consumables.

In accordance with the company's environmental management system (EMS), a systematic method is used to identify and evaluate the main environmental aspects. Approximately 95% of the operations, including all major sites, are certified and within the EMS. The Environmental Rule states that employees are responsible for including environmental awareness and actions in their everyday work. Managers shall ensure that the policy is understood and acted upon within their organizations.

Tieto envisions a future in which information is the biggest driver of continuously increasing social and economic value. The company seeks a pivotal role in this change, and is committed to pursuing the opportunities of the data-driven world and supporting sustainable development. As one example, Tieto's Industrial Internet start-up is engaged in long-term collaboration with HSB Living Lab, Sweden, to innovate IT solutions that enhance future living.

The energy needed for running servers and computers in data centres, including the energy consumed for cooling, accounts for a large part of Tieto's total energy consumption and greenhouse gas emissions. Data centres represent around 30% of the company's total greenhouse gas emissions. Tieto works in a number of ways to improve energy efficiency in the data centres, e.g. by using virtualization and cloud-based solutions.

In addition, the company is reusing energy by recycling excess heat from data centre servers to warm up buildings. This solution is currently in use in Tieto's new-generation data centre in Espoo, Finland, where excess heat is fed back to the local district heating network. In Stockholm, a similar solution is used to warm up the office and nearby buildings.

To reduce greenhouse gas emissions and other environmental impacts, Tieto also aims to cut down travelling as much as possible. The company's travel policy encourages minimizing travel to internal meetings and favouring the use of digital tools such as video and teleconferences or live meetings. In addition, environmentally friendly travel options are to be chosen whenever possible.

To avoid environmental risks in the supply chain and reduce the environmental impacts from purchased goods and services, Tieto is continuing its dialogue with suppliers, subcontractors and partners. The aim is to ensure that they fulfil the high ethical and environmental requirements stated in the company's Supplier Code of Conduct Rule. This code is based on the UNGC and requires having an environmental management system equivalent to ISO 14001 or the Eco-Management and Audit Scheme (EMAS) in place.

As a result of the coordinated actions it has taken on climate change issues, Tieto was included in the Nordic Edition of CDP's Climate Change Report 2016, in which it received a level B score, the second highest of five levels. The five levels in CDP's scoring represent the steps on a company's journey to being a good environmental steward.

Tieto published its seventh GRI-based Corporate Responsibility (CR) report in 2016. This report, including an overview of Tieto's environmental, social and economic performance during 2015, was prepared in accordance with the core option of the GRI G4 Reporting Guidelines. The report was externally assured in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". The CR report also represented the company's annual Communication on Progress in accordance with United Nations Global Compact (GC) requirements, qualifying for the GC Advanced level.

Shareholders' Nomination Board

The largest shareholders were determined on the basis of the shareholdings registered in the Finnish and Swedish book-entry systems on 31 August 2016. The shareholders who wished to participate in the work of the Shareholders' Nomination Board nominated the following members:

- Martin Oliw, Partner, Cevian Capital AB
- Kari Järvinen, Managing Director, Solidium Oy
- Timo Ritakallio, President and CEO, Ilmarinen Mutual Pension Insurance Company
- Satu Huber, Chief Executive Officer, Elo Mutual Pension Insurance Company and
- Markku Pohjola, Chairman of the Board of Directors, Tieto Corporation.

Shares and share-based incentives

The number of Tieto shares amounted to 74 109 252 at the end of December. On 31 December, Tieto's holding amounted to a total of 411 682 own shares, representing 0.6% of the total number of shares and voting rights. There were no flagging announcements during 2016.

The subscription period for the company's option programmes ended on 31 March 2016. Currently, Tieto has no option programmes.

Additional information regarding shares and shareholders is available at www.tieto.com/investors/shares.

Dividend

The distributable funds of the parent company amount to EUR 582.4 million, of which net profit for the current year amounts to EUR 49.4 million. The Board of Directors proposes a dividend of EUR 1.15 (1.10) per share for 2016. In light of the company's strong cash flow and targeted capital structure, an additional dividend of EUR 0.22 (0.25) is proposed. Tieto will maintain its capacity to invest in growth both organically and inorganically after dividends. The proposed dividend payout does not endanger the solvency of the company.

The dividend shall be paid to shareholders who are recorded in the shareholders' register held by Euroclear Finland Ltd or the register of Euroclear Sweden AB on the proposed dividend record date, 27 March 2017.

Near-term risks and uncertainties

Consolidated net sales and profitability are sensitive to volatility in exchange rates, especially that of the Swedish Krona and Norwegian Krona. Sales to Sweden and Norway represent close to half of the Group's sales. Further details on management of currency risks are provided in the Financial Statements and on currency impacts at www.tieto.com/currency-impact.

Tieto's ambition to drive customer transformation also poses a risk of lower prices in existing services while it is also anticipated to expand the company's sales opportunities. At the same time, new disruptive technologies, such as cloud computing, drive customer demand towards standardized and less labour-intensive solutions. These changes might result in the need for continuous restructuring and the need to recruit new competences. That may lead to temporarily overlapping personnel costs and uncertainty among personnel.

The company's development is relatively sensitive to changes in the demand from large customers as Tieto's top 10 customers currently account for 31% of its net sales. However, the share has decreased by several percentage points during the past years.

As is typical of Product Development Services, visibility is limited due to the short order backlog. PDS booked goodwill impairment in 2014 due to the reduction in business volumes and has efficiently adjusted its cost base. Overall, volatility in the operating environment might lead to potential goodwill impairments also going forward.

Typical risks faced by the IT service industry involve additional technology licence fees, the quality of deliveries and related project overruns. The transition related to the automation programme, increasing use of global delivery centres as well as the ongoing organizational change pose risks of project losses and penalties.

Economic growth might be affected by recent uncertainty, for example, related to Brexit and the election in the USA. The direct impact on Tieto is anticipated to be marginal, but slower growth in Europe might indirectly lead to weakness in the IT services market as well. The share of sales in the USA and Russia is less than 1%.

Companies around the world are facing new risks arising from tax audits. Should the macroeconomic environment remain weak, some countries may introduce new regulation. Additionally, changes in the tax authorities' interpretations could have unfavourable impacts on taxpayers.

Events after the period

As part of its long-term renewal and in response to the need to increase its productivity and price competitiveness, Tieto initiated personnel negotiations in Finland on 17 January. The negotiations affect up to 250 employees. These actions are based on increased service standardization and a continuation to the global automation programme initiated in 2015. The company additionally seeks to optimize its productivity and cost structure globally. The company expects that the actions altogether, including the anticipated reductions in Finland, will result in annualized gross savings of close to EUR 40 million. It is estimated that over EUR 20 million in savings will affect the cost base for 2017.

On 9 January, a total of 25 555 Tieto's treasury shares were transferred as part of the allocations related to the company's share-based reward plan. After the transfer of the shares, Tieto holds a total of 386 127 own shares.

Full-year outlook for 2017

Tieto expects its adjusted¹⁾ full-year operating profit (EBIT) to increase from the previous year's level (EUR 152.2 million in 2016).

¹⁾ adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items

Reported alternative performance measures

In accordance with the new guidelines on alternative performance measures issued by the European Securities and Markets Authority (ESMA) Tieto has revised the terminology used in its financial reporting. The term "adjusted items" has replaced the term "one-off items". Adjusted items include restructuring costs, capital gains/losses, goodwill impairment charges and other items.

Tieto uses alternative performance measures to better reflect its operational business performance and to enhance comparability between financial periods. They are reported in addition to, but not as a substitute for, the performance measures reported in accordance to IFRS.

EUR million	1-12/2016	1-12/2015
Operating profit (EBIT)	140.8	125.2
+ restructuring costs	14.8	29.6
+ impairment losses	-	-
- capital gains	-	-6.1
+ capital losses	0.2	-
+/- M&A related items	-1.9	1.0
+/- other	-1.7 ¹⁾	1.1 ²⁾
Adjusted operating profit (EBIT)	152.2	150.8

¹⁾ Value added tax correction from previous years EUR -1.1 million in Russia

In Finland, around 250 active employees have been included in the defined benefit pension plans. Based on negotiations with the insurance company, Tieto closed its defined benefit plan for future pension accrual. As a consequence, a settlement gain of EUR 4.6 million has been recognized in personnel expenses in December 2016. More information available in note 11 in the Notes to the consolidated financial statements. "Other items" also includes EUR 1.5 million in one-off write-offs related to obsolete assets replaced by new technologies.

²⁾ of which costs of EUR 1.1 million related to the restructuring of a subcontractor agreement

Financial calendar 2017

23 March

Annual General Meeting

Tieto will publish three interim reports in 2017:

27 April

Interim report 1/2017 (8.00 am EET)

21 July

Interim report 2/2017 (8.00 am EET)

24 October

Interim report 3/2017 (8.00 am EET)

Consolidated financial statements

KEY FIGURES

	2016	2015
Net sales, EUR million	1 492.6	1 460.1
Operating profit (EBIT), EUR million	140.8	125.2
Operating margin, %	9.4	8.6
Adjusted ¹⁾ operating profit (EBIT), EUR million	152.2	150.8
Adjusted ¹⁾ operating margin, %	10.2	10.3
Profit before taxes, EUR million	136.8	119.3
Earnings per share, EUR	1.46	1.23
Adjusted ¹⁾ earnings per share, EUR	1.58	1.51
Equity per share, EUR	6.62	6.57
Dividend per share, EUR	1.37	1.35
Capital expenditure and acquisitions, EUR million	99.2	136.7
Return on equity, %	22.1	19.0
Return on capital employed, %	21.6	20.4
Gearing, %	22.5	2.7
Equity ratio, %	47.3	46.2
Personnel on average	13 472	13 184
Personnel on 31 Dec	13 876	13 083

¹⁾ Adjusted for restructuring costs, capital gains/losses, goodwill impairment charges and other items

FIVE-YEAR FIGURES

	2016	2015	2014	2013	2012
Net sales, EUR million	1 492.6	1 460.1	1 522.5	1 606.8	1 825.3
Operating profit (EBIT), EUR million	140.8	125.2	61.1	85.7	63.0
Operating margin, %	9.4	8.6	4.0	5.3	3.5
Profit before taxes, EUR million	136.8	119.3	56.6	79.1	56.7
% of net sales	9.2	8.2	3.7	4.9	3.1
Earnings per share, EUR					
Basic	1.46	1.23	0.48	0.86	0.41
Diluted	1.46	1.23	0.48	0.86	0.41
Equity per share, EUR					
	6.62	6.57	6.44	7.08	7.30
Total assets, EUR million	1 074.5	1 086.3	1 031.5	1 094.6	1 179.6
Return on equity, 12-month rolling, %	22.1	19.0	7.1	12.0	5.5
Return on capital employed, 12-month rolling, % ¹⁾	21.6	20.4	9.8	13.5	13.2
Equity ratio, %	47.3	46.2	47.8	49.3	46.9
Gearing, %	22.5	2.7	-12.6	3.0	4.5
Capital expenditure and acquisitions, EUR million	99.2	136.7	43.5	71.7	62.9
% of net sales	6.6	9.4	2.9	4.5	3.4
Average number of employees					
	13 472	13 184	14 007	15 170	17 646

¹⁾ When calculating Return on capital employed the negative net impact on interest rate swaps and exchange differences are considered as other financial expenses starting from year 2014. The key figure for year 2013 has been correspondingly restated.

2012 restated due to revised IAS 19.

2013 restated due to IFRS 11 'Joint arrangements'. The balance sheet items concerning year 2012 in the 12-month average denominator are not restated according to the IFRS 11.

See calculation of key figures on page [Calculation of key figures](#).

KEY FIGURES BY QUARTER

Unaudited	2016 ¹⁾ 1-12	2016 10-12	2016 7-9	2016 4-6	2016 1-3	2015 ¹⁾ 1-12	2015 10-12	2015 7-9	2015 4-6	2015 1-3
Net sales, EUR million	1 492.6	403.6	340.5	381.0	367.5	1 460.1	395.6	335.1	363.8	365.6
Operating profit (EBIT), EUR million	140.8	45.1	35.1	32.3	28.3	125.2	46.8	41.4	23.1	13.9
Profit before taxes, EUR million	136.8	44.3	34.1	30.7	27.7	119.3	45.8	39.5	21.8	12.2
Earnings per share, EUR										
Basic	1.46	0.46	0.37	0.33	0.29	1.23	0.47	0.40	0.24	0.12
Diluted	1.46	0.46	0.37	0.33	0.29	1.23	0.47	0.40	0.24	0.12
Equity per share, EUR										
Equity ratio, %	47.3	47.3	44.4	42.2	38.9	46.2	46.2	44.3	44.8	39.6
Interest-bearing net debt, EUR million	109.7	109.7	136.4	103.3	-21.3	13.2	13.2	57.7	5.3	-85.9
Gearing, %	22.5	22.5	30.6	24.7	-5.3	2.7	2.7	13.3	1.3	-21.5
Capital expenditure and acquisitions, EUR million	99.2	24.7	53.3	11.8	9.4	136.7	32.7	81.8	10.6	11.6
Personnel										
At end of period	13 876	13 876	13 758	13 381	13 200	13 083	13 083	13 179	12 949	13 456
Average, cumulative	13 472	13 472	13 339	13 229	13 173	13 184	13 184	13 230	13 346	13 580

¹⁾ Based on audited financial statements

See calculation of key figures on page Calculation of key figures

INCOME STATEMENT (IFRS)

EUR million	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Net sales	1	1 492.6	1 460.1
Other operating income	3	19.8	30.5
Cost of sales		-232.8	-230.2
Employee benefit expenses	8, 9	-827.1	-828.3
Depreciation and amortization	14, 15	-53.9	-56.6
Impairment loss		-	-
Other operating expenses	4	-261.0	-254.5
Share of profit from investments accounted for using the equity method	28	3.2	4.2
Operating profit		140.8	125.2
Interest and other financial income	6	2.1	1.9
Interest and other financial expenses	6	-5.0	-5.4
Net exchange losses and gains	6	-1.1	-2.4
Profit before taxes		136.8	119.3
Income taxes	12	-29.6	-28.8
Net profit for the financial year		107.2	90.5
Net profit for the period attributable to			
Shareholders of the Parent company		107.2	90.5
Non-controlling interest		0.0	0.0
		107.2	90.5
Earnings per share attributable to the shareholders of the Parent company, EUR	7		
Basic		1.46	1.23
Diluted		1.46	1.23
Statement of comprehensive income, EUR million			
Net profit for the period		107.2	90.5
Items that may be reclassified subsequently to profit or loss			
Translation difference		-2.1	2.3
Cash flow hedges (net of tax)		-0.2	0.5
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain/loss on post employment benefit obligations (net of tax)		-2.1	9.5
Total comprehensive income		102.8	102.8
Total comprehensive income attributable to			
Shareholders of the Parent company		102.8	102.8
Non-controlling interest		0.0	0.0
		102.8	102.8

Notes are an integral part of these consolidated financial statements.

COMMENTS TO THE INCOME STATEMENT

Net sales increased by 2.2% to EUR 1 492.6 (1 460.1) million, growth of 3.2% in local currencies. In IT services, net sales were up by 4.3%, in local currencies up by 5.3%. In Product Development Services, sales were down by 17.3% partly due to an insourcing by one key customer whose projects ended after the first quarter of 2015. The acquisitions added EUR 50 million in sales, affecting Industry Solutions (EUR 34 million) and Business Consulting and Implementation (EUR 16 million). Divestments implemented in 2015 had a negative impact of EUR 5 million, affecting Industry Solutions. Currency fluctuations had a negative impact of EUR 15 million on sales, mainly due to the weaker Swedish and Norwegian Krona.

Operating profit (EBIT) amounted to EUR 140.8 (125.2) million, representing a margin of 9.4% (8.6). Operating profit included allocated acquisition-based amortization of EUR 3.3 million. Additionally, customer debt restructurings had a negative impact of EUR 1.7 million.

Cost savings, mainly related to the automation programme and industrialization of application management services, had a positive effect of around EUR 29 million on IT services' operating profit while the positive impact of gross savings was curbed by around EUR 18 million in salary inflation, around EUR 20 million in costs for recruitments in new service areas and the increase of EUR 15 million in offering development costs.

Currency changes had a negative impact of over EUR 3 million on operating profit. The negative effect was mainly attributable to Swedish and Norwegian Krona.

Employee benefit expenses remained at the previous year's level and represented 55.4% (56.7) of net sales. Employee benefit expenses include costs from personnel restructuring of EUR 10.6 (30.9) million. The performance-based incentive accruals, including both short-term and long-term incentives, were EUR 25.6 (32.4) million. The average number of full-time employees was 13 472 (13 184).

Net financial expenses stood at EUR 4.0 (5.9) million. Net interest expenses were EUR 2.1 (2.2) million and net losses from foreign exchange transactions EUR 1.1 (2.4) million. Other financial income and expenses amounted to EUR -0.8 (-1.3) million.

Tax expenses reported for the year include EUR 23.6 million payable on the profit for the year and EUR 6.9 million negative from the change in deferred taxes. Tax rate was 20.0% in Finland and 22.0% in Sweden.

Cost structure, %	2016	2015
Cost of sales	16.9	16.8
Employee benefit expenses	60.2	60.5
Other operating expenses	19.0	18.6
Impairment loss	-	-
Depreciation and amortization	3.9	4.1
Total	100.0	100.0

BALANCE SHEET (IFRS)

EUR million	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Goodwill	14, 29, 30	409.7	384.9
Other intangible assets	14	52.3	41.0
Property, plant and equipment	15	94.0	83.0
Investments accounted for using the equity method	28	16.5	17.2
Deferred tax assets	13	29.9	31.6
Finance lease receivables	22	2.2	4.6
Other interest-bearing receivables		0.0	0.1
Available-for-sale financial assets	16	0.7	0.7
Total non-current assets		605.3	563.1
Current assets			
Trade and other receivables	17	390.3	353.9
Pension benefit assets	11	7.4	6.6
Finance lease receivables	22	3.5	3.5
Other interest-bearing receivables		0.3	0.4
Current income tax receivables		11.0	2.6
Cash and cash equivalents	18	56.7	156.2
Total current assets		469.2	523.2
Total assets		1 074.5	1 086.3
EQUITY AND LIABILITIES			
Equity			
Share capital	19	76.6	76.6
Share issue premiums and other reserves	19	43.4	44.6
Share issue based on stock options	19	-	0.0
Retained earnings		368.1	361.6
Parent shareholders' equity		488.1	482.8
Non-controlling interest		-	0.1
Total equity		488.1	482.9
Non-current liabilities			
Loans	20, 22	103.8	105.0
Deferred tax liabilities	13	34.9	28.7
Provisions	21	5.4	6.1
Pension obligations	11	13.9	16.7
Other non-current liabilities		0.2	1.5
Total non-current liabilities		158.2	158.0
Current liabilities			
Trade and other payables	23	344.6	334.6
Current income tax liabilities		3.5	14.9
Provisions	21	11.5	22.9
Loans	20, 22	68.6	73.0
Total current liabilities		428.2	445.4
Total equity and liabilities		1 074.5	1 086.3

Notes are an integral part of these consolidated financial statements.

COMMENTS TO THE BALANCE SHEET

Assets

The consolidated balance sheet totalled EUR 1 074.5 (1 086.3) million, a decrease of 1.1%. Goodwill increased to EUR 409.7 (384.9) million. Acquisitions added EUR 26.2 million to goodwill. Direct capital expenditure on fixed assets including

new finance lease agreements amounted to EUR 61.6 (50.5) million.

Distribution of total assets

31 Dec, %	2016	2015
Goodwill	38.1	35.4
Other intangible assets	4.9	3.8
Tangible assets	8.7	7.6
Other assets	43.0	38.8
Cash and cash equivalents	5.3	14.4
Total	100.0	100.0

Equity and liabilities

The total equity amounted to EUR 488.1 (482.9) million. The net profit for the year increased equity by EUR 107.2 million and dividend payment decreased equity by EUR 99.3 million.

The equity ratio was 47.3% (46.2). Gearing increased to 22.5% (2.7). Interest-bearing net debt totalled EUR 109.7 (13.2) million, including EUR 166.9 (171.3) million in interest-bearing debt,

EUR 5.5 (6.7) million in finance lease liabilities, EUR 5.7 (8.1) million in finance lease receivables, EUR 0.3 (0.5) million in other interest-bearing receivables and EUR 56.7 (156.2) million in cash and cash equivalents.

Distribution of total equity and liabilities

31 Dec, %	2016	2015
Share capital	7.1	7.1
Other parent shareholders' equity	38.3	37.4
Interest-bearing liabilities	16.0	16.4
Non-interest-bearing debt	38.6	39.1
Total	100.0	100.0

STATEMENT OF CASH FLOW (IFRS)

EUR million	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Cash flow from operations			
Net profit		107.2	90.5
Adjustments			
Depreciation, amortization and impairment	14, 15	53.9	56.6
Share-based payments		1.3	1.0
Profit/loss on sales of fixed assets and shares	3, 4	0.1	-6.8
Share of profit from investments accounted for using the equity method	28	-3.2	-4.2
Other adjustments		-7.7	-2.0
Net financial expenses	6	4.0	5.9
Income taxes	12	29.6	28.8
Change in net working capital			
Change in current receivables		-40.9	29.3
Change in inventories		0.0	0.0
Change in current non-interest-bearing liabilities		-10.7	-44.3
Cash generated from operations		133.6	154.8
Financing income received under leases		0.2	0.3
Interest income received		2.3	1.2
Interest expenses paid		-4.2	-3.8
Other financial income received		9.8	8.7
Other financial expenses paid		-10.7	-13.6
Dividends received from investments accounted for using the equity method	28	3.8	5.4
Income taxes paid		-37.6	-20.4
Net cash flow from operations		97.2	132.6
Cash flow from investing activities			
Acquisition of Group companies and business operations, net of cash acquired	29	-32.3	-73.7
Capital expenditure		-61.7	-43.7
Disposal of Group companies and business operations, net of cash disposed		0.0	8.3
Sales of fixed assets		0.1	0.6
Sales of available-for-sale financial assets		-	0.5
Change in loan receivables		2.5	2.7
Total net cash used in investing activities		-91.4	-105.3
Cash flow from financing activities			
Dividends paid		-99.3	-95.2
Exercise of stock options		0.8	3.6
Payments of finance lease liabilities		-1.3	-0.3
Proceeds from short-term borrowings		625.3	288.1
Repayments of short-term borrowings		-628.2	-228.4
Proceeds from long-term borrowings		-	-
Repayments of long-term borrowings		-1.5	-1.8
Total net cash used in financing activities		-104.2	-34.0
Change in cash and cash equivalents			
Cash and cash equivalents at the beginning of period	18	156.2	160.6
Foreign exchange differences		-1.1	2.3
Change in cash and cash equivalents		-98.4	-6.7
Cash and cash equivalents at the end of period	18	56.7	156.2

Notes are an integral part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY (IFRS)

EUR million	Note	Parent shareholders' equity							Retained earnings	Total	Non-controlling interest	Total equity
		Share capital	Share issue premiums and other reserves	Share issue based on stock options	Own shares	Translation differences	Cash flow hedges	Invested unrestricted equity reserve				
At 31 Dec 2014		76.6	43.9	0.5	-11.6	-51.0	-0.3	8.5	404.5	471.1	0.1	471.2
Comprehensive income												
Net profit for the period									90.5	90.5	0.0	90.5
Other comprehensive income												
Actuarial gain on post employment benefit obligations (net of tax)									9.5	9.5		9.5
Translation difference			0.7			1.8			-0.2	2.3		2.3
Cash flow hedges (net of tax)	26						0.5			0.5		0.5
Total comprehensive income			0.7			1.8	0.5		99.8	102.8	0.0	102.8
Transactions with owners												
Share-based payments recognized against equity	8								1.0	1.0		1.0
Dividend									-95.2	-95.2		-95.2
Share subscriptions based on stock options				-0.5				3.6		3.1		3.1
Share subscriptions based on stock options, not yet registered				0.0						0.0		0.0
Non-controlling interest												0.0
Total transactions with owners		0.0	0.0	-0.5	0.0			3.6	-94.2	-91.1	0.0	-91.1
Impact on investments accounted for using the equity method												
									0.0	0.0		0.0
At 31 Dec 2015		76.6	44.6	0.0	-11.6	-49.2	0.2	12.1	410.1	482.8	0.1	482.9

EUR million	Note	Parent shareholders' equity							Retained earnings	Total	Non-controlling interest	Total equity
		Share capital	Share issue premiums and other reserves	Share issue based on stock options	Own shares	Translation differences	Cash flow hedges	Invested unrestricted equity reserve				
At 31 Dec 2015		76.6	44.6	0.0	-11.6	-49.2	0.2	12.1	410.1	482.8	0.1	482.9
Comprehensive income												
Net profit for the period									107.2	107.2	0.0	107.2
Other comprehensive income												
Actuarial loss on post employment benefit obligations (net of tax)									-2.1	-2.1		-2.1
Translation difference			-1.2			-3.1			2.2	-2.1		-2.1
Cash flow hedges (net of tax)	26						-0.2			-0.2		-0.2
Total comprehensive income			-1.2			-3.1	-0.2		107.3	102.8	0.0	102.8
Transactions with owners												
Share-based payments recognized against equity	8								1.1	1.1		1.1
Dividend									-99.4	-99.4		-99.4
Share subscriptions based on stock options			0.0					0.7		0.7		0.7
Non-controlling interest									0.1	0.1	-0.1	-
Total transactions with owners		0.0	0.0	0.0	0.0			0.7	-98.2	-97.5	-0.1	-97.6
Impact on investments accounted for using the equity method												
									0.0	0.0		0.0
At 31 Dec 2016		76.6	43.4	0.0	-11.6	-52.3	-	12.8	419.2	488.1	-	488.1

Notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements (IFRS)

ACCOUNTING POLICIES FOR THE CONSOLIDATED ACCOUNTS

Corporate information

Corporate information

Tieto Corporation is a Finnish public limited company organized under the laws of Finland and domiciled in Helsinki. The company is listed on NASDAQ Helsinki and Stockholm. The Board of Directors approved the consolidated financial statements to be published on 2 February 2017. According to the Limited Liability Companies Act, the shareholders have the right at the Annual General Meeting to approve, disapprove or change the consolidated financial statements after the publication.

Basis of preparation and accounting principles for the consolidated financial statements

Basis of preparation

These consolidated financial statements of Tieto Corporation are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements are presented in millions of euros and have been prepared under historical cost conventions, unless otherwise stated in these accounting policies.

New and amended standards adopted by the Group

In preparing these financial statements, the Group has followed the same accounting policies as in the annual financial statements for 2015. The Group has applied the following standards and amendments

for the first time for their annual reporting period commencing 1 January 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to IFRS 11
- Clarification of acceptable methods of depreciation and amortization – Amendments to IAS 16 and IAS 38
- Annual improvements to IFRSs 2012 – 2014 cycle, and
- Disclosure initiative – amendments to IAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

New standards and interpretations not yet adopted:

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The new classification model for financial assets is more principles-based than the current requirement under IAS 39 Financial Instruments: Recognition and Measurement. Financial assets are classified according to their contractual cash flow characteristics and the business models under which they are held.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the current understanding about impact on financial assets classification and measurement is as follows:

- for equity instruments currently classified as available-for-sale (AfS), the fair value through other comprehensive income (FVOCI) election is available

- Interest bearing debt instruments currently classified as held-to-maturity and measured at amortized cost appear to meet the conditions for classification at amortized cost under IFRS 9
- Trade and non-interest bearing receivables, which are currently accounted at amortized cost, are expected to pass both cash flow and business model tests and hence the Group would be able to continue accounting for those at amortized cost
- For derivatives currently accounted at fair value through profit or loss (FVTPL) there is no other alternative also when applying IFRS 9.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities, except for derivatives, for which there is no change provided by IFRS 9. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. As at the end of year 2016, the Group has no open cash flow hedge relationships with changes in fair value accounted in equity. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. This will require for the Group to perform customer segmentation in order to assess the ECL level for each Group, based on their creditworthiness. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new

model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

During 2016, the Group performed a preliminary assessment of IFRS 15, which will be further defined in connection to the ongoing implementation and development plan.

The business models consist of continuous services, software solutions, projects and consulting. Goods mainly include sales of software licenses. Revenue comprises the fair value for the sale of IT services and goods, net of value-added tax, discounts and exchange rate differences.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified by the business models the following areas that are likely to be affected:

Continuous services

- Transition revenue and costs incurred in the initial phase of continuous operating service contracts. Currently revenue is recognized during transition and costs are expensed as they arise. Under IFRS 15 the set-up type of activities do not result in the transfer of a promised good or service and are not identified as performance obligation to the customer. This will affect the timing of the recognition of revenue, as revenue will only be recognized when the operating services are rendered. The costs for the set-up type of activities are not expensed but recognized

as an asset under IFRS 15 provided the defined criteria are met.

consideration to determine the accounting and related constraint.

Software solutions

- Software licenses and other goods. Currently the sales of goods are recognized when the decisive risks and rewards that are connected with the ownership of the goods sold are transferred to the buyer and the seller retains neither a continuing right to dispose of the goods, nor effective control of those goods. In product business the contracts with customers include typically software license, implementation and maintenance. Depending on the customization and integration level the software licenses are currently recognized separately at transfer of risks and rewards to the buyer, or together with the implementation service when customization is significant and the license is not functional apart from service. The application of IFRS 15 may result in some alignments in identification of performance obligations which could partly affect the timing of the recognition of license revenue.

According to the preliminary analysis, and apart from the above areas subject to further assessment, timing for the revenue recognition is not expected to change significantly. Revenue from service contracts is currently based on service volumes or time and materials and recognized over the accounting period in which the service is rendered or project completed. The Group will account for continuous services in a contract as series of distinct goods or services, as one performance obligation, when the criteria defined in IFRS 15 are met.

Under IFRS 15 revenue will be recognized over time provided the defined criteria in IFRS 15 are met. The Group has preliminarily assessed that the services are generally satisfied over time given that either the customer simultaneously receives and consumes the benefits provided by the Group, or the Group's performance does not create an asset with alternative use to the Group, in which case there is enforceable right to payment for work completed to date.

At this stage, the Group is not able to quantitate the impact of the new rules on the Group's financial statements. The Group will continue to assess the impact during the year 2017.

Projects

- Warranty obligations. The Group provides warranties for software or application delivery projects and does not provide extended warranties with services in its contracts with customers. As such, the Group expects that the warranties will be assurance-type warranties. Currently the warranties are accounted for as deferred revenue over the project period. Under IFRS 15 the warranties will be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The Group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Group will apply the requirements of IFRS 15 to each comparative period presented and adjust its consolidated financial statements. The Group plans to use the practical expedients for completed contracts and for completed contracts that have variable consideration, and will consider using additional practical expedients. Using the practical expedient for completed contracts means that completed contracts that began and ended in the same comparative reporting period, as well as the contracts that are completed contracts at the beginning of the earliest period presented, are not restated. Using the practical expedient for completed contracts that have variable consideration, the transaction price at the date the contract was completed may be used rather than estimating variable consideration amounts in the comparative reporting periods.

Common for all business models

- Variable consideration. Under IFRS 15 the variable consideration will be required to be estimated at contract inception. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. Most usual variable elements in the transaction price are different types of discounts. Based on the assessment of the most typical discount types, no major change in timing of the revenue is expected. The Group continues to assess individual types of variable

IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance

sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of EUR 183.4 million, see note 31. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

Disclosure Initiative: Amendments to IAS 7

Amendment requires disclosure of changes in liabilities arising from financing activities. It is effective on 1 January 2017.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Consolidation principles

The consolidated financial statements include the Parent company Tieto Corporation and all subsidiaries over which the Parent company has direct or indirect control generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date of acquisition until the date of divestment.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a

subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

Intra-group receivables, payables and transactions including dividends and internal profit are eliminated on consolidation.

Tieto Corporation holds interests in joint ventures for which it has right to the net assets of the arrangement and hence equity accounts for its interest according to IFRS 11 'Joint operations'. Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Non-controlling interests are shown separately under consolidated shareholders' equity.

Segment reporting

The Group's operating model comprises of a matrix structure of service lines and industry groups, of which the service line dimension constitutes the main operating segments. The reportable operating segments in the service line dimension are Technology Services and Modernization, Business Consulting and Implementation, Industry Solutions and Product Development Services. The operating segments are reported in a manner consistent with

the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Leadership Team that makes strategic decisions.

Goodwill is allocated to the Cash Generating Units, which include several countries and therefore goodwill is not included in the country specific non-current assets presented in the segment information.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the Group's presentation currency.

Foreign currency transactions are translated at the exchange rate prevailing on the transaction date. The foreign currency monetary items are translated using period end exchange rates. The foreign currency non-monetary items held at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined or remeasured. Other non-monetary items are recorded at the exchange rate prevailing on the transaction date.

Foreign exchange gains and losses related to business operations are included in operating profit except when deferred in other comprehensive income as qualifying cash flow hedges. Foreign exchange gains and losses associated with financing are reported in financial income and expenses.

The results and financial positions of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates;
- all resulting exchange differences are recognized in other comprehensive income.

When a subsidiary is sold, any translation differences are recognized in the consolidated

income statement as part of the gain or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

Revenue recognition

Revenue is recognized in accordance with the requirements of IAS 11 'Construction contracts' and 18 'Revenue'. Revenue comprises the fair value for the sale of IT services and goods, net of value-added tax, discounts and exchange rate differences. Services mainly include the development of customized software solutions, maintenance of software solutions, and processing and network services. Goods mainly include sales of software licenses.

Sales of services are recognized in the accounting period in which the service is rendered. Revenue from fixed price projects and similar types of customer agreements is recognized according to the stage-of-completion method, which is calculated monthly by comparing costs of completed work hours against total estimated costs of work hours to finalize the project. Stage-of-completion method is used provided that the degree of completion can be assessed reliably and the amount of the income and costs related to the service contract can be estimated reliably. If these conditions are not met, revenue only equal to costs incurred to date is recognized to the extent that such costs are expected to be recovered. The operations are steered based on project performance and direct costs are linked to deliveries in services lines, which constitute the main operating segments. In the follow-up of the customer projects, the project is considered as loss-making when the total direct costs are estimated to exceed the total expected revenue and a provision corresponding to the uncovered direct costs is immediately recognized.

Sales of goods are recognized when the decisive risks and rewards that are connected with the ownership of the goods sold are transferred to the buyer and the seller retains neither a continuing right to dispose of the goods, nor effective control of those goods.

Transition costs incurred in the initial phase of continuous operating service contracts are expensed as they arise. Revenue from the operating service contracts is based on service volumes and is recognized when the services are rendered.

Order Backlog

The reported order backlog includes all signed customer orders that have not been recognized as revenue.

Other operating income

Other operating income mainly includes gains from both asset and business disposals, rental income and government grants. Gains from discontinued operations are included in the net profits of the discontinued operations.

Government grants

Government grants relating to costs are deferred and recognized as Other operating income over the period necessary to match them with the costs that they are intended to compensate. Investment grants related to acquisitions of property, plant and equipment and intangible assets are deducted from the cost of the asset in question in the statement of financial position and recognized as income on a systematic basis over the useful life of the asset in the form of reduced depreciation expense.

Research and development costs

Research costs are expensed as incurred. Development expenditures related to major new business concepts and software products are capitalized as intangible assets when their future recoverability can reasonably be established and the following criteria can be demonstrated: the technical feasibility of completing the intangible asset so that it will be available for sale and use, the intention to complete the intangible asset and use or sell it, the ability to use or sell the intangible asset, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. In addition, the ability to demonstrate how the intangible asset will generate future economic benefits is required and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Intangible assets are carried at cost less any accumulated amortizations and accumulated impairment losses.

Income taxes

The tax expense for the period includes current taxes of the Group companies based on taxable profit for the year, together with tax adjustments for previous years and changes in deferred taxes. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this

case, the tax is also recognized in other comprehensive income or directly in equity.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using the tax rates and laws which have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The most significant temporary differences arise from depreciation differences, employee benefits and intangible assets. Deferred taxes are accounted for temporary differences except for the following: goodwill not deductible for taxation purposes, the initial recognition of an asset or liability in a transaction other than a business combination that affect neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will probably not be reversed in the foreseeable future.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The deferred tax assets and liabilities arising from consolidation are recognized in the consolidated balance sheet if it is probable that the related tax effects will occur.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Impairment testing of goodwill

Goodwill acquired in a business combination is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of impairment testing goodwill is allocated to each of the cash-generating units (CGU) or groups of CGUs, which are expected to benefit from the synergies of the combination. Each unit or group of units represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. If the carrying amount of goodwill exceeds its recoverable amount an impairment loss equal to the difference is recognized.

The recoverable amount is the higher of value in use represented by the net present value of future cash flows and the fair value less costs to sell.

Intangible assets

Acquired intangible assets are capitalized at cost. Intangible assets acquired in business combinations are capitalized at fair value at the acquisition date. The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortized over their useful lives with the straight-line method. Intangible assets with indefinite useful lives are tested for impairment annually or if events or changes in circumstances indicate that such carrying amount may not be recoverable.

Intangible assets recognized by the Group in business combinations are usually customer or technology related and have finite useful lives. Marketing related intangible assets are not generally recognized by Tieto because normally the value of acquired business constitutes of customer relationships, technologies and personnel (which is included in goodwill) and therefore the marketing related intangible assets do not generally have separately recognizable fair value.

The group applies the following useful lives:

	Years
Software	3
Other intangible rights	3
Other capitalized expenditure	3–10
Allocated intangible assets, technology related	3–10
Allocated intangible assets, customer related	2–10

Property, plant and equipment

Land is not depreciated. Other fixed assets are carried at cost less accumulated depreciation. Government grants received are deducted from the cost. Property, plant and equipment acquired in business combinations are measured at fair value at the acquisition date. Depreciation is charged according to plan based on the estimated

economic lives of the individual assets and accounted for in accordance with the straight-line method. The assets' residual useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The group applies the following economic lives:

	Years
Buildings	25–40
Data processing equipment ¹⁾	1–5
Other machinery and equipment	5
Other tangible assets	5

1) Purchases of personal computers are expensed immediately.

Leases

Leases of lessees

Lease agreements are classified as finance and operating leases. Assets procured under finance lease agreements are capitalized as fixed assets and depreciated during the estimated useful lives. The annual rents are disclosed as amortization of the finance lease liability and interest expenses.

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Leases of lessors

If an arrangement conveys a right to use a specific asset to a purchaser, often together with related services the assets, mainly technical equipment, are classified as embedded finance leases. Sales derived from these embedded finance leases are recognized at the beginning of the agreement period. The annual payments are disclosed as amortization of the finance lease loan receivable and interest income.

Financial instruments

Classification

Financial assets are classified into the following categories

- 1) At fair value through profit or loss

Derivatives, comprising foreign exchange forward contracts, currency options, power derivatives and interest rate swaps.

- 2) Loans and receivables

Fixed-term deposits, principally comprising of funds held with banks and other financial institutions, and short-term and long-term

loan receivables, as well as trade and other receivables, are classified as loans and receivables. In the balance sheet, they are reported according to their nature either in trade and other receivables, loan receivables or cash and cash equivalents (current assets) or in loan receivables or other non-current assets (non-current assets). Investments in money market instruments are reported as short-term deposits under cash and cash equivalents.

- 3) Available-for-sale financial assets

Investments in equity instruments, except for investments in associated companies and joint ventures, are classified as assets available-for-sale. They are included in noncurrent assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Financial liabilities are classified into categories

- 1) At fair value through profit or loss

Derivatives, comprising foreign exchange forward contracts, currency options, power derivatives and interest rate swaps.

- 2) Financial liabilities measured at amortized cost

Short-term borrowings and overdrafts as well as long-term loans and trade and other payables are classified as financial liabilities measured at amortized cost. Loans are included in non-current and current liabilities.

Recognition and de-recognition

All financial instruments are initially recognized at fair value. Transaction costs are included in the carrying value only if the financial instrument is not recorded at fair value through profit or loss in which case transaction costs are expensed in income statement. Usually the fair value equals amount received or paid.

Regular way purchases and sales of financial assets are accounted for at trade date, the date on which the Group commits to purchase or sell the asset, for all categories of financial assets, where entity hold them and which are not derivatives.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized when they are extinguished, that is when the obligation is discharged, cancelled or expired.

Subsequent measurement

Subsequent measurement of financial instruments depends on the designation of the instruments

- Financial assets and liabilities at fair value through profit or loss

The valuation method is described in the footnote of Note 26. Related valuation changes are reported, depending on their nature, in the income statement in the financial income and expenses, in other income from operations and other operating expenses in exchange rate gains and losses (foreign exchange forward contracts) and in other financial income and expenses (currency options). The rest of the valuation changes are shown in interest income and expenses (interest rate swaps) and in other operating expenses (power derivatives), except for when applying hedge accounting where fair value changes are reported in other comprehensive income.

In the balance sheet the fair value of financial assets from this category are reported under trade and other receivables or trade and other payables if asset or liability due in less than 12 months. In case the asset or liability is due in later than 12 months, it is reported under other noncurrent assets and liabilities in the balance sheet.

- Loans and receivables

Loans and receivables are subsequently carried at amortized cost, using the effective interest method.

- Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value if fair value can be measured reliably. Unrealized gains and losses are recognized in shareholders' equity. If fair value is not available, the assets are held at initial value. The available-for-sale assets are reported under other noncurrent

assets in the balance sheet. When the investment is sold, the accumulated fair value adjustment is recognized in the income statement.

- Financial liabilities measured at amortized cost

Interest expense and transaction costs are amortized in the income statement over the maturity of the loan using the effective interest method.

Impairment of financial assets

- Assets carried at amortized cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of assets is impaired. A financial asset is regarded impaired if one or more of the following events have occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset:

1. significant financial difficulty of the issuer or obligor
2. a breach of contract such as default in interest or principal payments
3. it becomes probable that the borrower will enter bankruptcy or other financial reorganisation
4. the disappearance of an active market for that financial asset because of financial difficulties.

Possible impairment is booked in the income statement.

- Assets classified as available for sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of assets is impaired. For debt securities the Group uses the criteria above. In the case of equity investments classified as available for sale, the Group evaluates whether there is any evidence of prolonged decline in the fair value of the security, thus justifying the assets are impaired. If such evidence exists, the impairment is booked in the income statement.

Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Group designates certain derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

The fair values of various derivative instruments used for hedging purposes are disclosed in note 25. Movements on the hedging reserve in other comprehensive income are also attached to the note 25.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion of cash flow hedge is recognized immediately in the income statement within the operating income and expenses. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (e.g. when the forecast sale that is hedged takes place).

Trade and other receivables

Trade and other receivables are carried at their nominal value or original amount due from customers, which is considered to be fair value, less a provision for doubtful receivables. The provision for doubtful accounts is recorded in the income statement and measured based on the principles defined in the Corporate credit policy. The provision is an accounting estimate of the amount of receivables with a high probability to be written off as uncollectable. The accounting estimate is based on the amount of receivables overdue for a period of time defined in the credit policy. The final write off decision is made based on individual assessment of the potential collectability risk involved.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with banks and other liquid investments that are readily convertible to known amount of cash within 3 months period and which are subject to an insignificant risk of changes in value. Bank overdrafts are included in short-term borrowings under current liabilities.

Provisions

A provision is a liability of uncertain timing or amount, which should be recognized when the

entity has a present legal or constructive obligation as a result of a past event and it is more likely than not that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Employee benefits

The Group operates a number of different pension plans in accordance with national requirements and practices. The majority of the plans are classified as defined contribution plans. Payments to defined contribution plans are recognized as employee benefit expenses when the contributions are due. The Group has no further payment obligations once the contributions have been paid.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

For defined benefit pension plans the liability equals the present value of the defined benefit obligation less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation.

The net interest of the net defined benefit liability or asset is presented among financial items.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Share-based payments

Tieto uses in its incentive programmes share options classified as being paid equity as well as rewards, which can either be paid in the form of shares, in the form of a cash payment or as a combination thereof. The fair value of the employee services received in exchange for the grant of the stock options and shares is recognized as an

expense during the vesting period. The cost of such services is measured by reference to the fair value of the options at the grant date. Terms and conditions which are not on market terms (e.g. targets related to the financial results and the duration of the employment relationship) are taken into account in the number of the share options, which the employees are expected to become entitled to. The amount to be booked as an expense will be allocated to the period of time, during which all the criteria for the generation of the right are to be fulfilled. An estimate of the number of share options to which a right is expected to be generated based on the terms and conditions not being on market terms, is checked on each financial statement date. The possible effect of the readjustments made to the original estimates is recorded in the income statement and a corresponding adjustment is made to the equity.

The rewards granted in the form of shares are booked as an employee benefit expense and as an increase in the equity. Share-based compensation is recognized as an expense in the income statement over the service period. The fair value of the amount payable to the employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities over the period in which the employees become unconditionally entitled to the payment. The liability is measured at each reporting date and at the settlement day. Any changes in the fair value of the liability are recognized as employee benefit expenses in the income statement.

The level of the realization of the set financial targets influences the amount in which rewards are to be booked and paid.

Equity, dividends and own shares

Dividends proposed by the Board of Directors are not deducted from distributable equity until approved by the shareholders at the Annual General Meeting.

When Tieto Corporation's own shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction in equity.

Earnings per share

Earnings per share (EPS) is calculated by dividing the net profit attributable to the shareholders of the company by the weighted average number of

shares in issue during the year, excluding shares purchased by Tieto Corporation.

Diluted earnings per share is calculated as if the warrants and options were exercised at the beginning of the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the warrants and options. The assumption of exercise is not reflected in earnings per share when the exercise price of the warrants and options exceeds the average market price of the shares during the period. The warrants and options have a diluting effect only when the average market price of the share during the period exceeds the exercise price of the warrants and options.

Adjusted items

In accordance with the new guidelines on alternative performance measures issued by the European Securities and Markets Authority (ESMA) Tieto has revised the terminology used in its financial reporting. The term "adjusted items" has replaced the term "one-off items". Adjusted items include restructuring costs, capital gains/losses, goodwill impairment charges and other items.

Tieto uses alternative performance measures to better reflect its operational business performance and to enhance comparability between financial periods. They are reported in addition to, but not as a substitute for, the performance measures reported in accordance to IFRS.

Critical accounting estimates and assumptions

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from the estimates.

Critical accounting estimates and assumptions are presented in the following disclosures:

	Note
Revenue recognition	2
Impairment of goodwill	30
Deferred income taxes	13
Share-based payments	10
Employee benefits	11
Fair value of derivatives and other financial instruments	25–26

Performance for the year

1. SEGMENT INFORMATION

The operating segments constitute the structure in which the Leadership Team makes strategic decisions and whose reports are regularly reviewed by the Leadership Team.

In July 2016 the reportable operating segments changed due the alignment of the operating structure with the new strategy. The Leadership Team considers and evaluates the business as a matrix structure comprising service lines and industry groups. In a matrix organisation, the company shall determine the reportable operating segments so that the company can provide sufficient information to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. In Tieto the service line dimension constitutes the main operating segments in which the strategic decisions are made and thus form a basis for defining the reportable segments according to IFRS 8.

The reportable operating segments in the service line dimension are Technology Services and Modernization, Business Consulting and Implementation, Industry Solutions and Product Development Services. The reportable service line segments constitute the structure for cash-generating units, to which the goodwill acquired in business combinations has been reallocated.

Group level costs like the costs related to Global management, Group's share of support functions and other non-allocated costs are not included in the service line segments but are reported under Support Functions and Global Management in the segment reporting.

The customer sales of service lines also present the reporting of products and services of Tieto.

The Leadership Team assesses the performance of the operating segments based on operating profit (EBIT) which corresponds to the operating profit in the Income statement according to IFRS.

Customer sales by service line

EUR million	2016 1-12	2015 1-12	Change %
Technology Services and Modernization	762	755	1
Business Consulting and Implementation	139	125	12
Industry Solutions	475	439	8
Product Development Services	117	142	-17
Group total	1 493	1 460	2

No internal sales occur between service lines as in the management accounting, revenue and costs are booked directly to the respective customer projects in the service lines.

Net sales by country

EUR million	2016 1-12	2015 1-12	Change %
Finland	674	669	1
Sweden	566	553	2
Norway	159	140	13
Other	94	99	-5
Group total	1 493	1 460	2

In Finland, IT services sales grew by 1.8% in 2016.

In Sweden, growth in local currencies was 3.8%. IT services grew by 7.4% in local currencies.

In Norway, growth in local currencies was 16.9%.

Customer sales by industry group

EUR million	2016 1-12	2015 1-12	Change %
Financial Services	370	347	7
Public, Healthcare and Welfare	479	439	9
Industrial and Consumer Services	527	533	-1
Product Development Services	117	142	-17
Group total	1 493	1 460	2

Customer sales to the telecom sector were EUR 232 (275) million.

Revenues derived from any single external customer during 2016 or 2015 did not exceed the 10% level of the total net sales of the Group.

Operating profit (EBIT) by service line

	2016	2015	Change
EUR million	1-12	1-12	%
Technology Services and Modernization	89.0	65.5	36.0
Business Consulting and Implementation	4.1	1.5	167.0
Industry Solutions	55.2	65.4	-15.5
Product Development Services	10.9	15.6	-30.5
Support Functions and Global Management	-18.5	-22.8	19.0
Operating profit (EBIT)	140.8	125.2	12.5

Operating margin (EBIT) by service line

	2016	2015	Change
%	1-12	1-12	pp
Technology Services and Modernization	11.7	8.7	3.0
Business Consulting and Implementation	3.0	1.2	1.7
Industry Solutions	11.6	14.9	-3.2
Product Development Services	9.3	11.0	-1.8
Operating margin (EBIT)	9.4	8.6	0.9

Adjusted operating profit (EBIT) by service line

	2016	2015	Change
EUR million	1-12	1-12	%
Technology Services and Modernization	92.4	88.6	4.3
Business Consulting and Implementation	1.7	3.1	-43.8
Industry Solutions	59.2	61.3	-3.5
Product Development Services	11.1	14.7	-24.5
Support Functions and Global Management	-12.2	-16.8	27.6
Operating profit (EBIT)	152.2	150.8	0.9

Adjusted operating margin (EBIT) by service line

	2016	2015	Change
%	1-12	1-12	pp
Technology Services and Modernization	12.1	11.7	0.4
Business Consulting and Implementation	1.2	2.5	-1.2
Industry Solutions	12.5	14.0	-1.5
Product Development Services	9.4	10.3	-0.9
Operating margin (EBIT)	10.2	10.3	-0.1

Personnel by service line

	End of period			Average		
	2016 1-12	Change %	Share %	2015 1-12	2016 1-12	2015 1-12
Technology Services and Modernization	6 338	8	46	5 881	6 159	6 044
Business Consulting and Implementation	1 376	2	10	1 349	1 367	1 220
Industry Solutions	4 024	10	29	3 668	3 813	3 469
Product Development Services	1 243	-3	9	1 279	1 222	1 488
Service Lines total	12 981	7	94	12 178	12 560	12 222
Industry Groups	260	-4	2	272	272	295
Support Functions and Global Management	635	0	5	634	641	667
Group total	13 876	6	100	13 083	13 472	13 184

Personnel by country

	End of period			Average		
	2016 1-12	Change %	Share %	2015 1-12	2016 1-12	2015 1-12
Finland	3 552	-2	26	3 612	3 586	3 846
Sweden	2 698	8	19	2 490	2 583	2 496
India	2 503	12	18	2 230	2 379	2 137
Czech Republic	2 247	11	16	2 025	2 145	2 037
Latvia	649	-4	5	678	664	690
Norway	636	6	5	600	607	479
Poland	413	-2	3	421	394	450
China	305	18	2	258	280	285
Estonia	280	43	2	196	256	169
Austria	138	11	1	124	130	119
Lithuania	99	-14	1	115	111	117
Other	357	7	3	335	337	358
Group total	13 876	6	100	13 083	13 472	13 184
Onshore countries	7 233	3	52	7 045	7 117	7 125
Offshore countries	6 643	10	48	6 039	6 355	6 058
Group total	13 876	6	100	13 083	13 472	13 184

Non-current assets by country

EUR million	2016 31 Dec	2015 31 Dec	Change %
Finland	85.9	81.7	5
Sweden	39.3	24.3	61
Other	21.2	18.0	18
Total non-current assets	146.4	124.0	18

Goodwill is allocated to the Cash Generating Units, which include several countries and therefore goodwill is not included in the country specific non-current assets shown above.

Depreciation by service line

	2016	2015	Change
EUR million	1-12	1-12	%
Technology Services and Modernization	35.2	38.7	-9
Business Consulting and Implementation	0.1	0.0	-
Industry Solutions	0.8	0.6	43
Product Development Services	0.0	0.3	-85
Support Functions and Global Management	3.7	4.2	-13
Group total	39.8	43.8	-9

Amortization on allocated intangible assets from acquisitions by service line

	2016	2015	Change
EUR million	1-12	1-12	%
Technology Services and Modernization	-	-	-
Business Consulting and Implementation	0.4	0.2	151
Industry Solutions	2.8	1.0	183
Product Development Services	-	-	-
Support Functions and Global Management	-	-	-
Group total	3.3	1.2	178

Amortization on other intangible assets by service line

	2016	2015	Change
EUR million	1-12	1-12	%
Technology Services and Modernization	8.9	9.2	-3
Business Consulting and Implementation	0.1	0.0	-
Industry Solutions	0.2	0.1	111
Product Development Services	-0.0	-0.1	-84
Support Functions and Global Management	1.6	2.4	-31
Group total	10.8	11.6	-7

2. PERCENTAGE OF COMPLETION

EUR million	31 Dec 2016	31 Dec 2015
Income statement related items		
Contract sales recognized under percentage of completion accounting during the financial year	113.3	126.7
Other sales	1 379.3	1 333.4
Net sales	1 492.6	1 460.1
Accumulated amount recognized from percentage of completion based contract sales since inception for contracts open at the end of the financial year	175.5	193.0
Balance sheet related items		
Accounts receivables related to percentage of completion based contract sales	27.4	30.9
Unbilled related to percentage of completion based contract sales less recognized losses	20.3	13.8
Gross amounts due from customers related to work in progress contracts	47.7	44.7
Unearned related to percentage of completion based contract sales less recognized losses	15.2	13.9

3. OTHER OPERATING INCOME

EUR million	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Gain on sales of fixed assets		0.1	0.3
Gain on sales of shares and businesses		0.0	6.6
Rental income		1.4	1.9
Government grants released		4.0	6.9
Ineffectiveness on cash flow hedges	26	0.0	0.0
Other exchange rate gains on derivatives		5.9	6.4
Other operating income		8.4	8.4
		19.8	30.5

EUR 3.3 million of government grants concerns conditional obligation to return. There has been no unfilled conditions.

4. OTHER OPERATING EXPENSES

EUR million	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Rents, licences and maintenance related to software		58.5	63.1
Data and phone communication		11.1	11.4
ICT purchases and services		29.9	25.1
Advertising and marketing		7.5	9.1
Travelling		21.5	20.6
Training		6.5	6.8
Consulting		24.8	23.9
Fees to auditors		1.7	1.7
Premises related		71.8	69.1
Ineffectiveness on cash flow hedges	26	-	0.0
Other exchange rate losses on derivatives		3.9	7.5
Loss on sales of fixed assets and shares		0.0	0.1
Other operating expenses		23.8	16.1
		261.0	254.5
Fees to auditors			
Authorized Public Accountants, PwC			
Audit fees		0.8	0.7
Tax consultation		0.6	0.6
Other services		0.2	0.3
		1.6	1.6
Other auditing firms			
Audit fees		0.0	0.0
Tax consultation		0.0	0.0
Other services		0.1	0.1
		0.1	0.1

5. DEVELOPMENT COSTS

Tieto's offering development costs amounted to around EUR 75 million in 2016, representing 5.0% of Group sales (EUR 60 million in 2015, representing 4.1% of net sales). These costs comprise service and product development focusing on, for example, industry-specific solutions, Customer Experience Management and Security Services, as well as cloud services. Additionally, the costs for related internal development, e.g. automation in managed services, are included in this amount. Development costs for major new business concepts and software products are capitalized as intangible assets if they fulfil the requirements stated in the accounting principles. No development costs were capitalized for either 2016 or 2015.

6. FINANCIAL INCOME AND EXPENSES

31 Dec 2016 EUR million	Interest income	Interest expenses	Exchange rate gains and losses	Other financial income	Other financial expenses	Total
Financial assets at fair value through profit or loss	-	-	0.4	-	-	0.4
Loans and receivables	2.1	-	-1.5	-	-	0.6
Available-for-sale financial assets	-	-	-	-	-	-
Financial liabilities measured at amortized cost	-	-4.0	-	-	-0.9	-4.9
Total according to IAS 39 classification	2.1	-4.0	-1.1	-	-0.9	-3.9
Pension net liability	-	-0.1	-	-	-	-0.1
Total in income statement	2.1	-4.1	-1.1	-	-0.9	-4.0

31 Dec 2015 EUR million	Interest income	Interest expenses	Exchange rate gains and losses	Other financial income	Other financial expenses	Total
Financial assets at fair value through profit or loss	0.1	-0.1	-2.3	-	-	-2.3
Loans and receivables	1.8	-	-0.1	-	-	1.7
Available-for-sale financial assets	-	-	-	-	-	-
Financial liabilities measured at amortized cost	-	-3.5	-	-	-1.4	-4.9
Total according to IAS 39 classification	1.9	-3.6	-2.4	-	-1.4	-5.5
Pension net liability	-	-0.4	-	-	-	-0.4
Total in income statement	1.9	-4.0	-2.4	-	-1.4	-5.9

Exchange rate gains and losses included in the operating profit were EUR 0.8 million in 2016 (EUR -4.0 million in 2015).

7. EARNINGS PER SHARE

	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Net profit for the period attributable to the shareholders of the Parent company (EUR million)	107.2	90.5
Earnings per share (EUR)		
Basic	1.46	1.23
Diluted	1.46	1.23
Number of shares during the year		
Basic		
Weighted average shares	73 660 433	73 426 563
Effect of dilutive stock options and shares	18 201	126 915
Diluted		
Adjusted weighted average shares and assumed conversions	73 678 634	73 553 478

Basic earnings per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options and shares.

Employee benefits

8. EMPLOYEE BENEFIT EXPENSES

EUR million	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Wages and salaries	622.4	624.9
Pension costs - defined contribution plans	70.5	72.3
Pension costs - defined benefit plans ¹⁾	-1.2	3.3
Other pay-related statutory social costs	112.9	109.0
Share-based payments		
Stock option related costs	0.0	0.1
Performance Share Plan costs	3.3	2.6
Other personnel costs	19.2	16.1
	827.1	828.3

¹⁾ The interest part related to the defined benefit plans is reported among financial items and disclosed in note 6.

Employee benefit expenses include restructuring costs and other termination benefits EUR 11 (31) million.

Equity settled share-based payment transactions recognized in the income statement are based on the fair value of the instrument which is measured using the Black & Scholes option pricing model. The counter-entry to the expense entered in the income statement is retained earnings, and therefore the expense has no effect on total equity.

9. MANAGEMENT REMUNERATION IN 2016

Total Management remuneration, EUR	2016	2015
Compensation to the Board of Directors	448 900	515 000
Salaries	3 278 598	3 495 502
Benefits	101 082	133 609
Special payments	0	0
Severance payments	0	0
Bonus	589 314	1 023 359
Share-based payment costs	1 432 798	1 081 267
Statutory pension costs	659 277	455 313
Additional pension costs	974 229	870 436
Total	7 484 198	7 574 486

Board of Directors

According to the decision by the AGM executives are compensated in cash and shares. Chairman EUR 83 000/year, Deputy Chairman EUR 52 500/year, member EUR 34 500/year, Committee Chairman EUR 52 500/year and EUR 800 for each board meeting.

Total compensation to the Board of Directors	448 900	515 000
Chairman of the Board	96 600	100 600
Deputy Chairman	66 900	67 700
Members	285 400	346 700

President and CEO

Salary	EUR 600 000	(2015: EUR 550 000)
Benefits	EUR 3 146	(2015: EUR 2 409)
Special payments	EUR 0	(2015: EUR 0)
Bonus	EUR 179 053 (estimate, not decided yet)	(2015: EUR 299 894)
Bonus principles	Maximum 100% of base salary based on Group's external revenue, profit, contract value and achievement of strategic goals when achievements exceed the targets.	
Long-Term Incentive Programme 2012–2014	The reward to be paid at target corresponds to 50% annual gross salary and at maximum 120% annual gross salary.	Current value of the shares under lock-up amounts to EUR 330 273 ¹⁾ .
	In spring 2015 a total of 12 742 shares were transferred as a reward from Performance Periods 2014 and 2012–2014 to the President and CEO. The shares are under transfer restriction according to the terms of the programme.	
Share-based reward plan	Entitled to a total of 9 200 gross shares if the criteria set for the plan are met. The plan will run until the end of 2016.	The current value of these allocations amounts to EUR 238 464 ¹⁾
Performance Share Plan 2015–2017	Entitled to 20 000 gross shares if the target levels of the performance metrics are met, 40 000 shares at maximum. The plan will run until spring 2018.	The current value of these allocations amounts to EUR 451 008 ²⁾
Performance Share Plan 2016–2018	Entitled to 20 000 gross shares if the target levels of the performance metrics are met, 40 000 shares at maximum. The plan will run until spring 2019.	The current value of these allocations amounts to EUR 575 424 ²⁾
Share-based payment costs	EUR 350 661	(2015: EUR 315 896)
Retirement age	63	
Statutory pension costs	EUR 156 686	(2015: EUR 96 580)
Additional pension costs	EUR 127 054	(2015: EUR 124 420)
Pension level	Annual fee (in addition to statutory pension provision): 23% of the annual base salary (defined contribution plan)	
Period of notice	12 months	
Severance payment	Equivalent to 12–18 months' salary.	

Leadership Team

Excluding President and CEO		
Salaries	EUR 2 678 598	(2015: EUR 2 945 502)
Benefits	EUR 97 936	(2015: EUR 131 200)
Special payments	EUR 0	(2015: EUR 0)
Total bonuses	EUR 410 261 (estimate, not decided yet)	(2015: EUR 723 465)
Bonus principles	The basis of bonus as well as target and maximum amounts for bonuses vary between the Leadership Team members.	
Long Term Incentive programme 2012–2014	The reward to be paid to other members of the Leadership Team on the basis of the Long-Term Incentive Programme 2012–2014 at target corresponds to 30–40% of the annual gross salary and at maximum 60–80% of the annual gross salary.	The value of the total rewards paid in 2016 was EUR 159 179. The current value of the shares under lock-up EUR 538 514 ¹⁾
	A total 2 744 shares were delivered in 2016 to LT members (excl. CEO) for Performance Periods 2014 and 2012–2014.	
	A total of 20 776 shares are under transfer restriction according to the terms of the programme.	
Share-based reward plan	Current Leadership Team members are entitled to a total of 23 900 shares if the criteria set for the plan is met. The plan will run until the end of 2016.	The current value of these allocations amounts to EUR 619 488 ¹⁾
Performance Share Plan 2015–2017	Current Leadership Team members are entitled to a total of 97 600 gross shares if the maximum levels of the performance metrics are met. The plan will run until spring 2018.	The current value of these allocations amounts to EUR 1 100 460 ²⁾
Restricted Share Plan 2015–2017	Current Leadership Team members are entitled to a total of 12 000 gross shares if the criteria set for the plan is met. The plan will run until spring 2018.	The current value of these allocations amounts to EUR 311 040 ¹⁾
Performance Share Plan 2016–2018	Current Leadership Team members are entitled to a total of 94 000 gross shares if the maximum levels of the performance metrics are met. The plan will run until spring 2019.	The current value of these allocations amounts to EUR 1 352 246 ²⁾
Restricted Share Plan 2016–2018	Current Leadership Team members are entitled to a total of 10 000 gross shares if the criteria set for the plan is met. The plan will run until spring 2019.	The current value of these allocations amounts to EUR 259 200 ¹⁾
Share-based payment costs	EUR 1 082 137	(2015: EUR 765 371)
Retirement age	According to national standards	
Statutory pension costs	EUR 502 590	(2015: EUR 358 733)
Additional pension costs	EUR 847 175	(2015: EUR 743 382) ³⁾
Pension level	Annual fee (in addition to statutory pension provision): 15% and 23% (for one executive member) of annual base salary (Defined contribution and defined benefit arrangements)	
Period of notice	Varies between 6 and 12 months	
Severance payment	Various terms, amounts corresponding to the periods of notice	

There were no loans to executive management on 31 December 2015 nor on 31 December 2016.

There are no guarantees on behalf of key management

¹⁾ The fair market value is calculated using the value of Tieto share on 31 December 2016, EUR 25.92

²⁾ The fair market value for Performance Share Plan is calculated using the latest performance estimates and value of Tieto share on 31 December 2016, EUR 25.92

³⁾ Pension payments for 2015 updated with the final amount paid in 2016

10. STOCK OPTIONS AND SHARE INCENTIVES

Tieto 2009 Stock Options

2009 C Stock Options

Initial number of Stock Options		600 000
Number of stock options outstanding on	31 December 2015	103 159
Number of stock options held by Tieto Corporation on	31 December 2015	138 675
Number of stock options granted during the year		0
Number of stock options forfeited during the year		0
Number of stock options annulled during the year		0
Number of stock options exercised during the year		96 159
Number of stock options expired during the year		145 675
Number of stock options converted during the year		0
Total number of stock options outstanding on	31 December 2016	0
Number of stock options held by Tieto Corporation on	31 December 2016	0
Total number of stock options exercisable on	31 December 2016	0
Share subscription period	1 March 2014–31 March 2016	
Share subscription terms	1 share in exchange for 1 stock option. The share subscription price is EUR 12.91. ¹⁾ The amount of the dividend or funds distributed through a distribution of funds from the distributable equity fund decided after the beginning of the share subscription price determination period but before the share subscription will be deducted from the share subscription price of stock options as per the relevant record date. At expiration the share subscription price was EUR 7.78.	

¹⁾ For Stock Option 2009 C, the share subscription price is the trade volume weighted average quotation of the Tieto share in continuous trading, rounded off to the nearest cent, on NASDAQ Helsinki during the two month period immediately following the announcement day of the financial statements for the year 2010.

Information related to stock options 2015

		Number of shares	Weighted average exercise price
Shares under option at	31 December 2015	103 159	9.13
Granted		0	0.00
Exercised ¹⁾		96 159	7.78
Forfeited		0	0.00
Expired		7 000	7.78
Shares under option at	31 December 2016	0	0.00

Assumptions made in determining the fair value of the Stock Options

The fair grant value of the stock options has been determined using the Black & Scholes method. No options were granted during 2016.

Share-based incentive plans

Long-term Incentive Programme 2012–2014

On 15 December 2011 the Board of Directors decided to establish a new share-based incentive plan, The Long-Term Incentive Programme 2012–2014. The Programme contains three annual performance periods based on EPS (Earnings per Share) measurement and one parallel three-year period based on relative TSR (Total Shareholder Return) measurement. The first performance period began on 1 January 2012 and the final performance period ended on 31 December 2014.

The estimated maximum number of shares to be delivered to participants as a reward is 1.6 million gross shares. The share rewards delivered under the programme will entitle to dividends or the value thereof beginning from the dividend payout in 2013. The share rewards are to be acquired from the market and hence, the incentive programme will have no dilutive effect. Individual performance periods are followed by a lock-up period of two years for the executive management or one year for the other participants. The possible reward will be paid in the form of Tieto shares and a cash payment to cover taxes.

On 5 March 2015 a total of 38 815 Tieto Corporation shares were delivered to the Leadership Team members. This was divided as follows: from the third EPS Performance Period based on criteria attainment 8 492 shares and from TSR period 30 323 shares. In addition, a cash payment was made to cover taxes and tax related costs. The delivered shares are under transfer restriction until publication of the financial results from year 2016. On 27 March 2015, 3 768 shares were returned to the Company according to the terms and conditions of the Programme.

On 9 March 2016 a total of 53 402 Tieto Corporation shares were delivered to the Plan participants. This was divided as follows: from the third EPS Performance Period based on criteria attainment 12 897 shares and from TSR period 40 505 shares. In addition, a cash payment was made to cover taxes and tax related costs. On 31 December 2016 a total of 37 089 shares were under lock-up, the lock-up lasts until publication of year 2016 results.

Share-based reward plan

On 24 April 2014 the Board of Directors decided to establish a new share-based reward plan. The Plan consists of one earning period and it will run until the end of 2016. The rewards to be paid correspond to the value of 62 500 Tieto shares in the maximum.

The Board of Directors anticipates that shares to be delivered to the participants under the plan would consist of shares in the possession of the company or shares to be acquired from the market. Thus, no new shares will be issued in connection with the plan and, therefore, the incentive plan will have no dilutive effect. The possible reward will be paid in the beginning of 2017 in the form of Tieto shares and a cash payment to cover taxes. On 31 December 2016 the plan includes 19 participants and the rewards to be paid in spring 2017 represents a value of 54 700 Tieto shares (gross, including share and cash portions).

Share-based programmes 2015–2017

On 4 February 2015 the Board of Directors decided to establish new share-based incentive plans for key employees of Tieto and its subsidiaries, a Performance Share Plan 2015–2017 and a Restricted Share Plan 2015–2017. Tieto nominated approximately 150 key employees, including Tieto's Leadership Team, to the plans.

The potential rewards from these incentive plans will be paid partly in the company's shares and partly in cash in 2018. The cash proportion is intended to cover taxes and tax-related costs arising from the reward. As a rule, no reward will be paid, if a participant's employment or service ends before the reward payment. The Board of Directors anticipates that share rewards to be delivered to the participants under the plan will consist of shares to be acquired from the market. Thus, no new shares will be issued in connection with the plan and, therefore, the incentive plan will have no dilutive effect.

Performance Share Plan 2015–2017

The potential reward from the Performance Share Plan 2015–2017 will be based on the relative Total Shareholder Return of Tieto share (TSR), strategic target related to Tieto's growth and on Tieto's Earnings per Share (EPS). Performance will be measured during 2015–2017. The rewards to be paid on the basis of the Performance Share Plan 2015–2017 correspond to the value of an approximate maximum of 430 000 Tieto shares, including the proportion to be paid in cash.

On 31 December 2016 the plan includes 124 participants and the rewards to be paid in spring 2018 represents a value of 370 588 Tieto shares in the maximum (gross, including share and cash portions).

Restricted Share Plan 2015–2017

The reward from the Restricted Share Plan 2015–2017 will be based on a valid employment or director agreement of a key employee upon the reward payment. The reward will be paid after the end of a three-year vesting period 2015–2017. The rewards to be paid on the basis of the Restricted Share Plan 2015 correspond to the value of an approximate maximum of 50 000 Tieto shares, including the proportion to be paid in cash.

On 31 December 2016 the plan includes 54 participants and the rewards to be paid in spring 2018 represents a value of 42 812 Tieto shares in the maximum (gross, including share and cash portions).

Share-based programmes 2016–2018

On 3 February 2016 the Board of Directors decided to establish new share-based incentive plans for key employees of Tieto and its subsidiaries, a Performance Share Plan 2016–2018 and a Restricted Share Plan 2016–2018. Tieto nominated approximately 150 key employees, including Tieto's Leadership Team, to the plans.

The potential rewards from these incentive plans will be paid partly in the company's shares and partly in cash in 2019. The cash proportion is intended to cover taxes and tax-related costs arising from the reward. As a rule, no reward will be paid, if a participant's employment or service ends before the reward payment. The Board of Directors anticipates that share rewards to be delivered to the participants under the plan will consist of shares to be acquired from the market. Thus, no new shares will be issued in connection with the plan and, therefore, the incentive plan will have no dilutive effect.

Performance Share Plan 2016–2018

The potential reward from the Performance Share Plan 2016–2018 will be based on the relative Total Shareholder Return of Tieto share (TSR), strategic target related to Tieto's growth and on Tieto's Earnings per Share (EPS). Performance will be measured during 2016–2018. The rewards to be paid on the basis of the Performance Share Plan 2016–2018 correspond to the value of an approximate maximum of 430 000 Tieto shares, including the proportion to be paid in cash.

On 31 December 2016 the plan includes 130 participants and the rewards to be paid in spring 2019 represents a value of 401 600 Tieto shares in the maximum (gross, including share and cash portions).

Restricted Share Plan 2016–2018

The reward from the Restricted Share Plan 2016–2018 will be based on a valid employment or director agreement of a key employee upon the reward payment. The reward will be paid after the end of a three-year vesting period 2016–2018. The rewards to be paid on the basis of the Restricted Share Plan 2016–2018 correspond to the value of an approximate maximum of 50 000 Tieto shares, including the proportion to be paid in cash.

On 31 December 2016 the plan includes 77 participants and the rewards to be paid in spring 2019 represents a value of 38 000 Tieto shares in the maximum (gross, including share and cash portions).

Assumptions made in determining the fair value of the Share-based incentive plans

In LTI 2012–2014 the grant was made in EUR and the fair value was that EUR amount divided into liability and equity portions. After the Performance Period, the amount is converted into shares after which the liability will change in accordance with Tieto Corporation's share price.

For Performance Share Plans and Restricted share plans the fair value for the equity settled portion has been determined at grant using the fair value of Tieto Corporation share as of the grant date, expected outcome and expected dividends.

The fair value for the cash settled portion is remeasured at each reporting date until the possible share delivery.

For share plan grants made in 2016, the fair value for the equity settled portion has been determined at grant using the following share price and expected dividends; cash portion is based on share price at year end:

Share price at grant: EUR 24.62

Expected dividends: EUR 3.89

Share price at year end: EUR 25.92

Stock Options, and Share-based Incentives effect on the result and financial position

EUR million	2016
Expenses for the financial year, share-based payments, equity settled	1.3
Expenses for the financial year, share-based, cash settled	2.1
Total expenses for the financial year, share-based payments	3.4
Liabilities arising from share-based payments 31 December 2016	3.4

11. PENSION PLAN

The Group operates Defined benefit plans through insurance companies. The employer has guaranteed to these employees a certain level of benefit after the retirement, which depends on the length of service and the salary basis. The salary basis is an average of last years' salaries indexed with common salary index. After the retirement the benefit payable is indexed yearly.

In Sweden the Group's risk is only on active employees, but in Finland the Group's risk covers as well around 1000 non-actives. When a paid-up policy is realized in the Finnish plan, the final benefit is recalculated, which might cause additional expenses to the employer. In addition the effect of index increments between the beginning of the paid-up policy and the retirement date is charged in some cases in the Finnish plan when the retirement begins. According to some insurance policies the employee can retire earlier than at a normal retirement age when certain conditions are fulfilled. These additional expenses are charged when the retirement begins.

In Finland the plan covers approximately 250 active employees. During 2016, the Group negotiated changes to the terms of the plan with the insurance company and decided to close its defined benefit plan for future pension accrual. 1 Jan 2017 onwards, defined contribution arrangements will apply to all future service. No further defined benefit pensions, based on final salary, will be earned by the employees. However, the Group will retain its defined benefit obligation in connection with the voluntary pension cover accrued until 31 Dec 2016. As a consequence of these changes a settlement gain of EUR 4,6 million was recognized in 2016 personnel costs and the net defined benefit liability decreased by the corresponding amount. As defined benefit pensions accrued until 31 Dec 2016 are not fully funded, the Group pays higher contribution to the defined contribution plan as of 1 Jan 2017. In addition, active employees have as of 1 Jan 2017 the option to transfer their defined benefit pensions to the defined contribution plan.

In Sweden the plan covers approximately 200 active employees. As the Group does not have actuarial or investment risk for those plan members whose employment has ceased, the plan members are removed from the pension plan and a settlement is recognized annually. In 2016, a settlement loss of EUR 1,5 million was recognized in personnel costs and the net defined benefit liability increased by the corresponding amount.

EUR million	31 Dec 2016	31 Dec 2015
Pension benefit plans		
Present value of funded pension obligations	93.7	96.6
Fair value of plan assets	-87.3	-86.5
Total provisions for pension obligations	6.4	10.1

Pension benefit plans amounts recognized in profit and loss

Service cost		
Current service cost	1.9	2.6
Settlements	-3.1	0.3
Net interest	0.1	0.4
Expense recognized in profit or loss	-1.1	3.3
Amounts in other comprehensive income		
Remeasurement		
Gains (-)/losses (+) from change in demographic assumptions	4.4	1.3
Gains (-)/losses (+) from change in financial assumptions	7.7	-21.7
Gains (-)/losses (+) from experience adjustments	-6.8	8.4
Amounts in total comprehensive income	5.3	-12.0

Amounts recognized in the balance sheet

Present value of pension obligations			
At 1 Jan		96.6	114.7
Current service cost		1.9	2.6
Interest expense		2.6	2.5
Benefits paid		-1.7	-1.6
Curtailement and settlement		-11.7	-7.7
Actuarial gains/losses		7.6	-15.0
Exchange rate difference		-1.6	1.1
At 31 Dec		93.7	96.6
Fair value of plan assets			
At 1 Jan		86.5	90.8
Interest income		2.5	2.1
Contribution		5.3	5.3
Benefits paid		-1.8	-1.6
Curtailement and settlement		-8.5	-8.0
Actuarial gains/losses		4.9	-3.0
Exchange rate difference		-1.6	0.9
At 31 Dec		87.3	86.5

The defined benefit obligation and plan assets are composed by country as follows

	31 Dec 2016		31 Dec 2015	
	Pension obligations	Plan assets	Pension obligations	Plan assets
Finland	56.5	43.0	58.5	42.1
Sweden	37.2	44.3	38.2	44.4
Total	93.7	87.3	96.7	86.5

Asset allocation

	31 Dec 2016		31 Dec 2015	
	EUR million	%	EUR million	%
Plan assets are comprised as follows in Sweden				
Equity instruments	16.8	37.9	15.9	35.8
Debt instruments	18.3	41.3	19.0	42.8
Property	4.7	10.6	4.5	10.1
Other	4.5	10.2	5.0	11.3
Total	44.3	100.0	44.4	100.0

In Finland plans assets are considered to include the cover paid to the insurance company and accumulated by the reporting date. The assets are the responsibility of the insurance company and a part of the insurance company's investment assets. The distribution in categories is not possible to provide.

Actuarial calculation assumptions

	31 Dec 2016	31 Dec 2015
Finland		
Discount rate	1.7	2.4
Future salary increases	3.3	3.3
Future pension increases	1.9	1.8
Inflation rate	1.6	1.6
Sweden		
Discount rate	2.8	3.3
Future salary increases	3.0	3.5
Future pension increases	1.7	1.5
Inflation rate	1.7	1.5

Sensitivity analysis

Following table shows how possible change in one assumption, holding other assumptions constant, affect to the defined benefit obligation.

	Change in assumption	Increase in assumption	Decrease in assumption
Impact on defined benefit obligation in Finland			
Discount rate	0.5%	-4.8%	10.0%
Future pension increase	0.5%	9.7%	-4.6%
Life expectancy	+1 year	14.2%	
Impact on defined benefit obligation in Sweden			
Discount rate	0.5%	-11.5%	13.0%
Future salary increase	0.5%	4.2%	-4.1%
Future pension increase	0.5%	13.0%	-11.6%
Life expectancy	+1 year	4.8%	

Maturity profile of the defined benefit obligation

The weighted average duration of defined benefit obligation is 15 years in Finland and 19 years in Sweden.

The following table shows the maturity profile of the future benefit payments which are the basis for the calculated undiscounted defined benefit obligation.

EUR million	31 Dec 2016
Maturity under 1 year	1.8
Maturity 1–5 years	11.1
Maturity 5–10 years	18.0
Maturity 10–30 years	69.9
Maturity over 30 years	21.7
	122.5

Expected contributions in 2017

Expected contributions to post-employment benefit plans for the year ending 31 December 2017 are EUR 4.1 million.

Multi-employer plans

The ITP pension plans operated by Alecta in Sweden are multi-employer defined benefit pension plans which pool the assets contributed by various entities that are not under common control and the assets provide benefits to employees of more than one entity. It has not been possible to get sufficient information for the calculation of obligations and assets by employer from Alecta, and therefore this plan has been accounted for as a defined contribution plan in the financial statements. In Tieto 2 651 employees are included in this pension plan. The yearly contribution is around EUR 12 million.

Income taxes

12. INCOME TAXES

EUR million	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Current taxes	23.6	22.6
Change of deferred taxes	6.9	6.5
Taxes for prior years	-0.9	-0.3
Total taxes in income statement	29.6	28.8
Income tax reconciliation		
Profit before taxes	136.8	119.3
Tax calculated at the domestic corporation tax rate of 20%	27.4	23.9
Effect of different tax rates in foreign subsidiaries	2.1	1.6
Taxes for prior years	-0.9	-0.3
Income not subject to tax due to tax exemption	-1.1	-
Expenses not deductible for tax purposes	1.8	1.4
Realisability of deferred tax assets	-2.4	0.3
Deferred tax resulting from change in tax rate	-	0.6
Tax on foreign dividend distribution	3.9	0.4
Share of joint ventures' results reported net of tax	-0.6	-0.8
Other items	-0.6	1.7
Income taxes in the consolidated income statement	29.6	28.8
Effective tax rate, %	21.6	24.1

The tax charge/credit relating to components of other comprehensive income

	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Deferred tax		
Employee benefits (IAS 19)	0.6	-2.5

13. DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities

EUR million	31 Dec 2016	31 Dec 2015
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	24.4	21.2
Deferred tax asset to be recovered within 12 months	5.5	10.4
Total	29.9	31.6
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	34.1	26.9
Deferred tax liability to be recovered within 12 months	0.8	1.8
Total	34.9	28.7
Net deferred tax liability	-5.0	2.9

The movement in deferred income tax assets and liabilities on gross basis during the year

	1 Jan 2016	Charged to income statement	Charged to other comprehensive income	Acquisitions and disposals	Other changes	31 Dec 2016
Deferred tax asset						
Restructuring costs	1.9	-0.8	-	-	0.1	1.2
Other provisions	1.7	0.7	-	-	-	2.4
Employee benefits	4.2	-1.1	0.4	-	-	3.5
Depreciation difference	9.2	-1.3	-	0.1	2.5	10.5
Other temporary difference	4.5	-0.7	-	0.1	0.1	4.0
Tax losses carried forward	10.1	-0.5	-	0.8	-2.1	8.3
Total	31.6	-3.7	0.4	1.0	0.6	29.9
Deferred tax liability						
Depreciation difference	0.1	-	-	-	-	0.1
Intangible assets	24.7	-1.6	-	3.1	0.1	26.3
Employee benefits	1.6	0.4	-0.2	-	-0.1	1.7
Finance lease	0.6	-0.2	-	-	-	0.4
Untaxed reserves	1.1	2.9	-	0.1	-	4.1
Other temporary difference	0.6	1.7	-	-	-	2.3
Total	28.7	3.2	-0.2	3.2	-	34.9
Net deferred tax liability	2.9	-6.9	0.6	-2.2	0.6	-5.0

The movement in deferred income tax assets and liabilities on gross basis during the year

	1 Jan 2015	Charged to income statement	Charged to other comprehensive income	Acquisitions and disposals	Other changes	31 Dec 2015
Deferred tax asset						
Restructuring costs	5.2	-3.2	-	-	-0.1	1.9
Other provisions	2.7	-0.9	-	-	-0.1	1.7
Employee benefits	5.6	0.1	-1.5	-	-	4.2
Depreciation difference	8.8	0.4	-	-	-	9.2
Other temporary difference	5.1	-0.9	-	0.1	0.2	4.5
Tax losses carried forward	0.5	-1.3	-	10.9	-	10.1
Total	27.9	-5.8	-1.5	11.0	-	31.6
Deferred tax liability						
Depreciation difference	0.1	-	-	-	-	0.1
Intangible assets	20.5	0.2	-	3.7	0.3	24.7
Employee benefits	0.2	0.4	1.0	-	-	1.6
Finance lease	0.6	-	-	-	-	0.6
Untaxed reserves	-	1.1	-	-	-	1.1
Other temporary difference	1.5	-1.0	-	0.1	-	0.6
Total	22.9	0.7	1.0	3.8	0.3	28.7
Net deferred tax asset	5.0	-6.5	-2.5	7.2	-0.3	2.9

At 31 December 2016 the Group had deferred tax assets on recognized tax losses carried forward totalling EUR 8.3 million (EUR 10.1 million in 2015) of which EUR 2.4 million had no expiry date and EUR 0.2 million will expire during the years 2017–2021 and the remainder thereafter.

At 31 December 2016 the Group had deferred tax assets on operational tax losses carried forward totalling EUR 3.1 million (EUR 5.7 million in 2015) which were not recognized due to uncertainty of utilization.

The amount of profits (undistributed earnings) on which no deferred tax liability is recorded is EUR 0 million as at 31 December 2016 (EUR 40.6 million in 2015).

Assets

14. INTANGIBLE ASSETS

EUR million	31 Dec 2016	31 Dec 2015
Goodwill		
At 1 Jan, net of accumulated impairment	384.9	323.7
Increases	26.3	61.5
Impairment	-	-
Other decreases	-	-1.9
Exchange difference	-1.5	1.6
At 31 Dec, net of accumulated impairment	409.7	384.9
Software		
At 1 Jan, net of accumulated amortization	8.0	10.7
Increases	2.7	2.9
Decreases	-	-0,0
Transfers	1.1	0.6
Exchange difference	-0,0	0.0
Amortization in the period	-5.9	-6.2
At 31 Dec, net of accumulated amortization	5.9	8.0
At 1 Jan		
Cost	123.5	120.5
Accumulated amortization and impairment	-115.5	-109.8
Net carrying amount	8.0	10.7
At 31 Dec		
Cost	126.7	123.5
Accumulated amortization and impairment	-120.8	-115.5
Net carrying amount	5.9	8.0
Other intangible rights		
At 1 Jan, net of accumulated amortization	15.4	1.5
Increases	14.6	15.2
Decreases	-	-
Transfers	0.7	-
Exchange difference	0.6	0.0
Amortization in the period	-3.4	-1.3
At 31 Dec, net of accumulated amortization	27.9	15.4
At 1 Jan		
Cost	24.9	10.7
Accumulated amortization and impairment	-9.5	-9.2
Net carrying amount	15.4	1.5
At 31 Dec		
Cost	40.5	24.9
Accumulated amortization and impairment	-12.6	-9.5
Net carrying amount	27.9	15.4

Other capitalized expenditure		
At 1 Jan, net of accumulated amortization	16.1	20.5
Increases	0.8	2.0
Decreases	-	-0.1
Transfers	0.1	-1.2
Exchange difference	-0.2	0.2
Amortization in the period	-4.8	-5.3
At 31 Dec, net of accumulated amortization	12.0	16.1
At 1 Jan		
Cost	53.4	56.9
Accumulated amortization and impairment	-37.3	-36.4
Net carrying amount	16.1	20.5
At 31 Dec		
Cost	53.6	53.4
Accumulated amortization and impairment	-41.6	-37.3
Net carrying amount	12.0	16.1
Advance payments, intangibles		
At 1 Jan, net of accumulated amortization	1.5	0.1
Increases	7.0	1.7
Transfers	-2.0	-0.3
Exchange difference	0.0	-0.0
Amortization in the period	-	-
At 31 Dec	6.5	1.5
Net carrying amount of intangible assets, total 31 Dec	462.0	425.9

15. PROPERTY, PLANT AND EQUIPMENT

EUR million	31 Dec 2016	31 Dec 2015
Land		
At 1 Jan	1.2	1.2
At 31 Dec	1.2	1.2
At 1 Jan		
Cost	1.2	1.2
Net carrying amount	1.2	1.2
At 31 Dec		
Cost	1.2	1.2
Net carrying amount	1.2	1.2
Buildings and structures		
At 1 Jan, net of accumulated depreciation	2.4	2.5
Depreciation in the period	-0.1	-0.1
At 31 Dec, net of accumulated depreciation	2.3	2.4
At 1 Jan		
Cost	3.8	3.8
Accumulated depreciation and impairment	-1.4	-1.3
Net carrying amount	2.4	2.5
At 31 Dec		
Cost	3.8	3.8
Accumulated depreciation and impairment	-1.5	-1.4
Net carrying amount	2.3	2.4
Machinery and equipment		
At 1 Jan, net of accumulated depreciation	57.8	71.7
Increases	30.4	24.0
Decreases	-0.8	-1.5
Transfers	6.7	4.4
Exchange difference	-0.4	0.1
Depreciation in the period	-36.9	-40.9
At 31 Dec, net of accumulated depreciation	56.8	57.8
At 1 Jan		
Cost	409.8	422.4
Accumulated depreciation and impairment	-352.0	-350.7
Net carrying amount	57.8	71.7
At 31 Dec		
Cost	413.2	409.8
Accumulated depreciation and impairment	-356.4	-352.0
Net carrying amount	56.8	57.8

Capitalized finance lease		
At 1 Jan, net of accumulated depreciation	6.7	2.0
Increases	-	6.7
Transfers	-	-1.3
Exchange difference	-	0.0
Depreciation in the period	-1.3	-0.7
At 31 Dec, net of accumulated depreciation	5.4	6.7
At 1 Jan		
Cost	55.9	59.0
Accumulated depreciation and impairment	-49.2	-57.0
Net carrying amount	6.7	2.0
At 31 Dec		
Cost	55.7	55.9
Accumulated depreciation and impairment	-50.3	-49.2
Net carrying amount	5.4	6.7
Other tangible assets		
At 1 Jan, net of accumulated depreciation	11.2	2.6
Increases	6.5	0.1
Decreases	0.0	-0.0
Transfers	0.0	10.5
Exchange difference	-0.1	0.1
Depreciation in the period	-1.5	-2.1
At 31 Dec, net of accumulated depreciation	16.1	11.2
At 1 Jan		
Cost	16.9	6.0
Accumulated depreciation and impairment	-5.8	-3.4
Net carrying amount	11.1	2.6
At 31 Dec		
Cost	23.2	16.9
Accumulated depreciation and impairment	-7.1	-5.8
Net carrying amount	16.1	11.1
Advance payments and work in progress		
At 1 Jan	3.7	2.2
Increases	15.2	14.2
Decreases	-	-0.0
Transfers	-6.7	-12.7
Exchange difference	-0.0	0.0
At 31 Dec	12.2	3.7
Net carrying amount of tangible assets, total 31 Dec	94.0	83.0

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Other shares and securities owned by the Parent company

EUR million	31 Dec 2016 Book value	31 Dec 2015 Book value
Lifeit Oy	0.1	0.1
Tapiolan Monitoimiareena Oy	0.1	0.1
Other shares and securities	0.1	0.1
	0.3	0.3

Other shares and securities owned by subsidiaries

Fimecc Oy	0.1	0.1
Vierumäen Kuntorinne Oy	0.2	0.2
Other shares and securities	0.1	0.1
	0.4	0.4

17. TRADE AND OTHER RECEIVABLES

EUR million	Note	31 Dec 2016	31 Dec 2015
Trade receivables		282.4	255.4
Prepaid expenses and accrued income			
Unbilled earned net sales		53.9	41.9
Licence fees		21.1	19.8
Rents		2.8	3.2
Social costs		3.1	2.1
Accrued interest income		0.0	0.4
Receivables on stock options		-	0.0
Other prepaid expenses		19.2	20.7
Derivate receivables	26	2.4	1.6
Other		5.4	8.8
		390.3	353.9

Aging and provision for doubtful trade receivables

EUR million	31 Dec 2016	31 Dec 2015
Not past due	236.0	223.9
Past due 1–30 days	41.6	26.7
Past due 31–60 days	3.3	3.9
Past due 61–90 days	0.9	0.9
Past due 91–180 days	0.6	0.3
Past due 180+ days	1.5	0.5
Provision for doubtful receivables	-1.5	-0.8
	282.4	255.4
Provision for doubtful receivables, of which		
Past due less 91 days	-	-0.1
Past due 91–180 days	-0.6	-0.2
Past due 181+ days	-0.9	-0.5
	-1.5	-0.8

18. CASH AND CASH EQUIVALENTS

EUR million	31 Dec 2016	31 Dec 2015
Cash in hand and at bank	50.0	127.4
Short-term deposits	6.7	28.8
Cash and cash equivalents	56.7	156.2

Short-term deposits are readily convertible to a known amount of cash within 3 months time. Cash and cash equivalents are carried at nominal value, which corresponds to their fair value.

Equity and liabilities

19. ISSUED CAPITAL AND RESERVES

EUR million	Number of shares	Share capital	Share issue premiums and other reserves	Share issue based on stock options	Total
1 Jan 2015	73 675 903	76.6	43.9	0.5	121.0
Translation difference			0.7		0.7
Share subscriptions based on stock options	334 050			-0.5	-0.5
Share subscriptions based on stock options, not yet registered				0.0	0.0
Transfer from/to retained earnings					0.0
31 Dec 2015	74 009 953	76.6	44.6	0.0	121.2
Translation difference			-1.2		-1.2
Share subscriptions based on stock options	99 299			0.0	0.0
Share subscriptions based on stock options, not yet registered					0.0
Transfer from/to retained earnings					0.0
31 Dec 2016	74 109 252	76.6	43.4	0.0	120.0

At the end of 2016, Tieto Corporation's total authorised number of shares was 74 109 252 (2015: 74 009 953 shares). The company has one class of shares, with each share conferring equal dividend rights and one vote. The company's Articles of Association include a restriction on voting at the Annual General Meeting, where no-one is allowed to vote with more than one-fifth of the votes represented at the meeting. Tieto's shares have no par value and have a book counter-value of one euro. All issued shares are fully paid.

At the end of 2016, the number of shares in the company's or its subsidiaries' possession totalled 411 682 representing 0.6% of the total number of shares and voting rights. In March, the Board of Directors decided on a directed share issue related to the reward payment for Tieto's Long-Term Incentive Programme. In the share issue, 53 402 Tieto shares held by the company were conveyed without consideration to the Leadership Team members participating in the programme. The number of outstanding shares, excluding the treasury shares, was 73 697 570 at the end of the year.

Share issue premiums and other reserves include share issue premium of Parent company and statutory reserve fund of Tieto Sweden AB.

In 2016 dividends were paid EUR 1.35 per share, totalling EUR 99.3 million (2015 1.30 per share, totalling EUR 95.2 million). After the reporting period, the Board of Directors has proposed to distribute dividend EUR 1.37 per share, totalling EUR 101.0 million.

20. INTEREST-BEARING LOANS AND BORROWINGS

EUR million	31 Dec 2016	31 Dec 2015
Long-term		
Bonds	99.6	99.5
Other loans	-	-
Finance lease liabilities	4.2	5.5
	103.8	105.0
Short-term		
Other loans	51.3	52.5
Cash Pool liabilities towards Joint Ventures	16.0	19.3
Finance lease liabilities	1.3	1.2
	68.6	73.0

21. PROVISIONS

EUR million	31 Dec 2016	31 Dec 2015
Provisions for restructuring		
At 1 Jan	20.6	36.7
Exchange difference	-0.4	0.2
New provision	11.5	35.1
Use of provision	-21.1	-44.7
Reversal of provision	-0.7	-6.7
At 31 Dec	9.9	20.6
of which		
long-term	0.6	0.9
short-term	9.3	19.7
Total	9.9	20.6
Provisions for loss-making contracts		
At 1 Jan	2.6	4.3
Exchange difference	-0.0	-0.1
New provision	3.2	2.2
Use of provision	-2.6	-3.8
Reversal of provision	-1.1	-
At 31 Dec	2.1	2.6
of which		
long-term	0.0	0.1
short-term	2.1	2.5
Total	2.1	2.6
Other provisions		
At 1 Jan	5.8	5.5
Exchange difference	-0.0	-0.0
Acquisition and disposal	-	0.2
New provision	2.2	2.4
Use of provision	-0.4	-1.9
Reversal of provision	-2.7	-0.4
At 31 Dec	4.9	5.8
of which		
long-term	4.8	5.1
short-term	0.1	0.7
Total	4.9	5.8

Major part of the new restructuring costs 2016 are related to efficiency program in Finland.

22. FINANCE LEASES

EUR million	31 Dec 2016	31 Dec 2015
Finance lease receivables		
Amortization periods of finance lease gross receivables		
Within one year	3.6	3.7
Between one and five years	2.3	4.7
Gross investment	5.9	8.4
Unearned future finance income	0.2	0.3
Net investment	5.7	8.1
Present value of minimum lease payment receivables		
Within one year	3.5	3.5
Between one and five years	2.2	4.6
Net investment	5.7	8.1

Tieto treats certain customer dedicated IT hardware assets, normally servers, as finance lease receivables.

Finance lease liabilities

Future minimum lease payments and their present value under finance lease agreements were as follows:

Finance lease future payments		
Within one year	1.5	1.5
Between one and five years	4.4	5.9
	5.9	7.4
Present value of future minimum lease payments		
Within one year	1.3	1.2
Between one and five years	4.2	5.5
	5.5	6.7
Future interest charge	0.4	0.7

Tieto has finance leases for IT equipment and software. Certain leases include purchase options. Renewals are subject to separate negotiations. Interest rate of financial lease liabilities as of 31 Dec 2016 was 3.7 % (4.0%).

23. TRADE AND OTHER PAYABLES

EUR million	Note	31 Dec 2016	31 Dec 2015
Trade payables		96.3	78.7
Advances received and deferred income		42.2	40.7
Accrued liabilities			
Vacation pay and related social costs		73.7	74.5
Other accrued payroll and related social costs		46.5	46.0
Interest		1.7	1.8
Rent		4.6	5.2
Derivative liabilities	26	1.1	1.4
Other accrued expenses		36.1	33.5
Value added tax debt		27.8	32.4
Payroll tax debt		14.6	20.4
		344.6	334.6

Financial instruments - Fair values and risk management

24. MANAGEMENT OF FINANCIAL RISKS

The group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk. The operative management of the treasury activities of Tieto is centralized into Group Treasury. The Group Treasury is responsible for managing the Group's financial risk position and maintaining adequate liquidity. The Treasury Policy, which has been approved by the board of directors, defines the principles for measuring and managing liquidity risk, interest rate risk, foreign exchange risks and counterparty risk of the Group. The Treasury Policy also defines the division of responsibilities with regard to financial risk management. The Group reviews and monitors financial risks on a regular basis.

Market risk

Currency risk management

Transaction risk

Currency risk means the risk that the result or economic situation of the Group changes due to changes in exchange rates. Foreign trade, Group internal transactions and liquidity management in non-euro countries generate transaction exposure to the Group. The objective of the Groups' currency risk policy is to secure profitability of operative business by managing recognised exposures while maintaining on a Group level a sufficient flexibility to adjust to changing currency markets. The Treasury Policy defines the approved hedging instruments for Tieto, and the company's policy is to hedge all identified currency exposures within the limits defined in the Policy. The underlying exposure includes financial items such as foreign currency accounts receivables and payables of operating companies, internal funding and foreign currency bank account balances, and estimated cashflows such as firm commitments and future trade transactions.

Swedish krona, Norwegian krona, Czech koruna, Indian rupee, Polish zloty and US dollar are the largest currencies in the exposure. Russian rouble does not have a material impact on group exposure. During 2016 Tieto used currency forward contracts and swaps to mitigate the risks. Gains and losses from foreign exchange contracts are accounted in Group income statement. With regard to Czech koruna, hedge accounting has not been applied any longer to the new deals made after April 2015. As of April 2016, all Cash flow hedge deals had realized.

Group Companies must hedge all their identified currency risks with the Group Treasury unless there are legal restrictions preventing this. The benchmark for the Group's currency position is a situation where all the identified currency risks are eliminated. A deviation from this benchmark is defined as an open position. The following deviations can be made based on the total size of the Group's gross currency position (identified currency risks, excluding the hedging transactions):

- +/- 15 %: Group Treasury
- +/- 25 %: Treasury Committee
- Greater deviation: Board

The overall operational hedging ratio at the end of December 2016 was 98% (2015: 90%).

EUR million	Financial items exposure	Estimated cash flows	Total FX exposure	External FX hedges	Transaction exposure sensitivity ¹⁾	FX hedge sensitivity ¹⁾	Net effect gain/(loss)
SEK							
31.12.2016	-53.6	14.2	-39.4	39.2	5.4	-3.9	1.4
31.12.2015	-72.0	31.8	-40.2	42.9	7.2	-4.3	2.9
NOK							
31.12.2016	-51.5	-0.1	-51.6	51.6	5.2	-5.2	-
31.12.2015	-27.9	-5.9	-33.8	31.2	2.8	-3.1	-0.3
PLN							
31.12.2016	0.6	-3.9	-3.3	3.2	-0.1	-0.3	-0.4
31.12.2015	1.0	-12.3	-11.3	11.7	-0.1	-1.2	-1.3
CZK							
31.12.2016	-3.5	-27.9	-31.4	30.0	0.4	-3.0	-2.7
31.12.2015	-7.8	-65.1	-72.9	65.3	0.8	-6.5	-5.8
INR							
31.12.2016	-	-18.8	-18.8	18.9	-	-1.9	-1.9
31.12.2015	-11.4	-54.0	-65.4	52.7	1.1	-5.3	-4.1

USD								
31.12.2016	-0.8	4.3	3.5	4.3		0.1	-0.4	-0.4
31.12.2015	1.0	16.0	17.0	-15.2		-0.1	1.5	1.4
Other								
31.12.2016	-1.4	0.6	-0.8	-5.0		0.1	0.5	0.6
31.12.2015	-1.3	5.8	4.5	-6.8		0.1	0.7	0.8

¹⁾ The maximum pre-tax effect (EUR million) of 10% negative change in exchange rates on the Group's foreign exchange position over the following year. The table includes the effect from swap contracts.

Translation risk

According to the Treasury Policy, hedging translation exposure is subject to Board decision. Exposure includes the acquisition price, share capital and restricted and non-restricted reserves of subsidiaries in non-euro countries, as well as the result of the period. SEK 2 511 million exposure forms the majority of the translation risk. The translation position was unhedged at the end of 2016.

Interest rate risk management

The most significant part of Group's interest rate risk arises from Group's borrowings and financial investments. The objective of interest rate risk management is to minimize the effect of interest rate fluctuations on Tieto's annual results and economic positions. Group Treasury is responsible for the monitoring and operative management of the Group's interest rate position. Interest rate position includes loans, financial investments and interest rate derivative contracts. The Treasury Policy defines the interest rate risk management principles and allowed interest rate hedging instruments for the Group. According to the Treasury Policy 12 months is defined as a benchmark for the Group's interest rate position, in terms of weighted average time to re-pricing. At the end of 2016 most of the funding was based on fixed rate 6-year bond, issued in May 2013. Consequently, the average time to re-pricing for the loans, at the end of the year was 18 months (27 months in 2015).

31 Dec 2016 EUR million	Amount	Duration	Average rate, %	Rate sensitivity ²⁾
Capital markets	-99.6	2.3	2.9	0.0
Money markets	56.7	0.0	1.4	0.6
Other loans	-51.0	0.1	0.2	-0.5
Other receivables	0.3	0.8	6.3	0.0

31 Dec 2015 EUR million	Amount	Duration	Average rate, %	Rate sensitivity ²⁾
Capital markets	-99.50	3.42	2.90	0.00
Money markets	156.20	0.00	0.90	1.56
Other loans	-71.80	0.20	0.50	-0.72
Other receivables	0.50	1.40	6.50	0.01

²⁾ The maximum pre-tax effect (EUR million) of 1% rise in interest rates on the Group's net interest expenses over the following year. The rate sensitivity in the table includes the effect from swap contracts.

Commodity risk management

Majority of power procurement has been centralized to a selected supplier and under the selected model, Group does not enter into any new power derivative agreements in its own name, however since the external supplier enters power derivative agreements for the purpose of hedging specifically Tieto's Group exposure, they are separated from the host electricity delivery agreement by Tieto and measured at fair value through profit or loss statement, based on prevailing market rates for similar instruments. Please refer to Note 26.

Liquidity risk management and funding

Liquidity risk management and funding principles are defined in the Treasury Policy. One of the key tasks of Group Treasury is to secure adequate funding for the Group. The Group has a committed EUR 150 million credit facility, which matures in 2020. In May 2013 the Group issued a six-year bond of EUR 100 million which is scheduled to be repaid in 2019. The Group has also overdraft facilities and a EUR 250 million commercial paper programme available to maintain flexibility in funding. Additionally there is a EUR 50 million sale of receivables facility.

Debt structure

31 Dec 2016

EUR million		Amount drawn	Amount available	Maturity structure					
				2017	2018	2019	2020	2021	2022-
Loans	Bond	100.0	-	-	-	100.0	-	-	-
	Commercial paper programme	51.0	199.0	51.0	-	-	-	-	-
	Revolving credit facility	-	150.0	-	-	-	-	-	-
	Liabilities towards Joint Ventures	16.0	-	16.0	-	-	-	-	-
	Other loans	0.3	-	0.3	-	-	-	-	-
		167.3	349.0	67.3	-	100.0	-	-	-
Interest payments		-	-	2.9	2.9	1.1	-	-	-
Derivative liabilities/ assets	Forward contracts outflow	-	-	198.7	-	-	-	-	-
	Forward contracts Inflow	-	-	-198.7	-	-	-	-	-
	Derivatives net flow	-	-	-	-	-	-	-	-
Trade payables	Outflow	-	-	96.3	-	-	-	-	-
Other liabilities	Financial lease liability	6.0	-	1.5	1.5	1.5	1.5	-	-
Total		173.3	349.0	168.0	4.4	102.6	1.5	-	-

31 Dec 2015

EUR million		Amount drawn	Amount available	Maturity structure					
				2016	2017	2018	2019	2020	2021-
Loans	Bond	100.0	-	-	-	-	100.0	-	-
	Commercial paper programme	50.0	200.0	50.0	-	-	-	-	-
	Revolving credit facility	-	150.0	-	-	-	-	-	-
	Liabilities towards Joint Ventures	19.3	-	19.3	-	-	-	-	-
	Other loans	2.6	-	2.6	-	-	-	-	-
		171.9	350.0	71.9	-	-	100.0	-	-
Interest payments		-	-	4.8	2.9	2.9	1.1	-	-
Derivative liabilities/ assets	Forward contracts outflow	-	-	294.5	-	-	-	-	-
	Forward contracts Inflow	-	-	-294.5	-	-	-	-	-
	Derivatives net flow	-	-	-	-	-	-	-	-
Trade payables	Outflow	-	-	78.7	-	-	-	-	-
Other liabilities	Financial lease liability	7.4	-	1.5	1.5	1.5	1.5	1.5	-
Total		179.3	350.0	156.9	4.4	4.4	102.6	1.5	-

Credit risk management

Credit risk is managed on Group level. Credit risk is derived from financial investments, derivative contracts and customer-related risks, such as accounts receivable. Group Treasury maintains a list of approved counterparties for commercial paper investment and other financial transactions in accordance with limits set in the Treasury Policy. According to the Treasury Policy, core banks of the Group should have a minimum long-term rating of Baa3 or BBB-. The Credit Policy defines the limits for the acceptable level of customer credit risk. Customer-related credit risks are assessed based on payment history and financial strength in accordance with the Credit Policy. Bad debts provisions are booked if the customer is late by more than 90 days. During 2016, provisions for bad debts increased by EUR 0.6 million (EUR 1.9 million release in 2015). EUR 1.7 million bad debts were booked in 2016 (EUR 0.3 million in 2015). The maximum exposure to customer related credit risk at the reporting date is the carrying value of trade receivables. The Group holds no collateral as a security for this credit risk. The Group has a Sale of Receivables facility with one of its core banks. The total facility size is EUR 50 million. There are no major concentrations of credit risk in the Group, whether through exposure to individual customers, specific industry sectors and/or regions.

Capital management

The target is to keep the capital structure on a level securing adequate financial flexibility for the operations. The capital structure of the Group is being continuously monitored through Net debt/EBITDA ratio. The ratio is calculated by dividing interest-bearing net debt with previous 12 month EBITDA (excluding capital gains) of the Group.

	31 Dec 2016	31 Dec 2015
Net debt	109.7	13.2
12 month EBITDA (excluding capital gains)	194.7	175.2
Net debt/EBITDA (excluding capital gains)	0.6	0.1

Net debt/EBITDA ratio (excluding capital gains, but including advances received) is also a covenant for Revolving credit facility. Tieto Group is within limits for this covenant as at end of year 2016 and comparative period.

Offsetting financial assets and liabilities

Agreements with derivatives counterparties are based on ISDA Master Agreements or on agreements with similar content with regards to offsetting financial assets and liabilities, i.e., under the terms of these agreements, only when certain events occur, such as, default of either of parties or other force majeure circumstances, then the net position owing/receivable to a single counterparty will be taken as owing.

Financial assets consists of Trade Receivables, Derivatives and Cash balances; financial liabilities consist of Trade Payables and Derivatives. Group has no Overdraft balances outstanding as at end of reporting and comparable period. Trade Receivables, Cash balances and Trade Payables have been excluded from the table below since they are not subject to any enforceable master netting agreements or similar agreements and like with Derivatives will be settled on gross basis.

Financial assets

As at 31 December 2016	Gross amounts of recognized financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not set off in the balance sheet		Net amount
				Financial Instruments	Cash collateral received	
Derivative financial assets	2.4	-	2.4	-1.1	-	1.2
Total	2.4	-	2.4	-1.1	-	1.2

As at 31 December 2015	Gross amounts of recognized financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not set off in the balance sheet		Net amount
				Financial Instruments	Cash collateral received	
Derivative financial assets	1.6	-	1.6	-1.2	-	0.4
Total	1.6	-	1.6	-1.2	-	0.4

Financial liabilities

As at 31 December 2016	Gross amounts of recognized financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet		Net amount
				Financial Instruments	Cash collateral received	
Derivative financial liabilities	-1.1	-	-1.1	1.1	-	-
Total	-1.1	-	-1.1	1.1	-	-

As at 31 December 2015	Gross amounts of recognized financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet		Net amount
				Financial Instruments	Cash collateral received	
Derivative financial liabilities	-1.4	-	-1.4	1.2	-	-0.2
Total	-1.4	-	-1.4	1.2	-	-0.2

25. CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

EUR million	31 Dec 2016		31 Dec 2015	
	Carrying amounts	Fair values	Carrying amounts	Fair values
Financial assets at fair value through profit or loss				
Trade and other receivables				
Other				
Non-current derivative receivables	-	-	-	-
Current derivative receivables ¹⁾	2.4	2.4	1.6	1.6
Loans and receivables				
Non-current loan receivables, interest-bearing	2.2	2.2	4.8	4.8
Current loan receivables, interest-bearing	3.8	3.8	3.8	3.8
Trade and other receivables				
Trade receivables	282.4	282.4	255.4	255.4
Unbilled earned net sales	53.9	53.9	41.9	41.9
Accrued interest income	-	-	0.4	0.4
Cash and cash equivalents	56.7	56.7	156.2	156.2
Available-for-sale investments				
Other non-current assets	0.7	0.7	0.7	0.7
Financial assets total	402.1	402.1	464.8	464.8
Financial liabilities at fair value through profit or loss				
Current liabilities				
Trade and other payables				
Other accrued expenses				
Current derivative liabilities ¹⁾	1.1	1.1	1.4	1.4
Financial liabilities measured at amortized cost				
Non-current liabilities				
Finance lease liability, non-current	4.2	4.2	5.5	5.5
Loans	99.6	105.8	99.5	104.9
Other non-current liabilities	0.2	0.2	1.5	1.5
Current liabilities				
Trade and other payables				
Trade payables	96.3	96.3	78.7	78.7
Interest	1.7	1.7	1.8	1.8
Finance lease liability	1.3	1.3	1.2	1.2
Loans	67.3	67.3	71.8	71.8
Financial liabilities total	271.7	277.9	261.4	266.8

¹⁾ The net fair value of Cash flow hedge derivatives was 0.0 million EUR in 2016 (EUR 0.2 million in 2015). (Note 26)

Foreign exchange derivatives' fair values are calculated according to foreign exchange and interest rates on the closing date.

Loans and receivables and financial liabilities are held at amortized cost using the effective interest rate method. Their carrying amounts are considered to approximate their fair value, except for the fixed rate bond where carrying amount has not been adjusted to match the fair value. Fair value of bond has been calculated based on prevailing market rate at the end of the reporting period.

Finance leases have been shown separately as they remain within the scope of IFRS 7, although they are outside the scope of IAS 39.

Available-for-sale investments' fair value measurement is based on their initial value. The fair market value cannot be reliably estimated, due to lack of proper market for the assets.

Currently the company holds no assets in held-to-maturity category.

Fair value measurement of financial assets and liabilities

31 Dec 2016

EUR million	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	2.4	-	2.4
Available-for-sale investments	-	-	0.7	0.7
Financial liabilities at fair value through profit or loss				
Derivatives	-	1.1	-	1.1

31 Dec 2015

EUR million	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	1.6	-	1.6
Available-for-sale investments	-	-	0.7	0.7
Financial liabilities at fair value through profit or loss				
Derivatives	-	1.4	-	1.4

There were no transfers between levels 1 and 2 during the year.

There were no changes in Level 3 instruments for the year ended 31 December 2016.

26. DERIVATIVES

Notional amounts of derivatives

Includes the gross amount of all notional values for contracts that have not yet been settled or closed. The amount of notional value outstanding is not necessarily a measure or indication of market risk, as the exposure of certain contracts may be offset by other contracts.

EUR million	31 Dec 2016	31 Dec 2015
Foreign exchange forward contracts	198.7	294.5
Forward contracts outside hedge accounting	198.7	281.9
Forward contracts within hedge accounting	-	12.6
Electricity price futures contracts outside hedge accounting	0.5	0.3

Fair values of derivatives

The net fair values of derivative financial instruments at the balance sheet date	31 Dec 2016	31 Dec 2015
Foreign exchange forward contracts	1.2	0.3
Electricity price futures contracts	0.1	-0.1

Derivatives are used for economic purposes only.

Gross positive fair values of derivatives	31 Dec 2016	31 Dec 2015
Foreign exchange forward contracts	2.3	1.6
Forward contracts outside hedge accounting	2.3	1.4
Forward contracts within hedge accounting ¹⁾	-	0.2
Electricity price futures contracts outside hedge accounting	0.1	-

Gross negative fair values of derivatives	31 Dec 2016	31 Dec 2015
Foreign exchange forward contracts	-1.1	-1.3
Forward contracts outside hedge accounting	-1.1	-1.3
Forward contracts within hedge accounting ¹⁾	-	-
Electricity price futures contracts outside hedge accounting	-	-0.1
¹⁾ Forward contracts within hedge accounting (net)	-	0.2
The amount recognized in equity	-	0.2
Net periodic interest rate difference recognized in interest income/expenses	-	-

The last forwards deals related to hedging highly probable forecast transactions denominated in foreign currency realized in April 2016. Gains and losses, recognized in the hedging reserve in equity (see Cash flow hedges below) on foreign exchange forward contracts as at 31 December 2016 amounted to net EUR 0.0 million (EUR 0.2 million in 2015). These are recognized in the income statement in the current period or periods during which the hedged forecast transactions affect the income statement.

The efficient portion of cash flow hedges recognized in net sales at 31 December 2016 amounted to a gain of EUR 0.2 million (EUR 0.6 million in 2015) and a loss of EUR 0.0 million (EUR 0.2 million in 2015), including the interest rate difference.

There were no gains or losses recognized in other operating income or expenses due to hedge accounting inefficiency as at 31 December 2016 (EUR 0.0 million in 2015).

Cash flow hedges

EUR million	Hedging reserve
Balance at 1 Jan 2015	-0.3
Fair value gains in year	1.1
Fair value losses in year	-0.5
Tax on fair value gains	0.2
Tax on fair value losses	-0.3
Balance at 31 Dec 2015	0.2
Balance at 1 Jan 2016	0.2
Fair value gains in year	-
Fair value losses in year	-0.2
Tax on fair value gains	-
Tax on fair value losses	-
Balance at 31 Dec 2016	-

Group structure and goodwill

27. SUBSIDIARY SHARES

Subsidiary shares owned by the Parent company

	Share %	31 Dec 2016 Book value EUR million
Tieto Austria GmbH, Austria	100.0	0.8
Tieto Beijing Information Technology Services Co., Ltd., China	100.0	0.4
Tieto Canada Inc., Canada	100.0	0.1
Tieto China Co., Ltd., China	100.0	4.3
Tieto Czech s.r.o., Czech Republic	100.0	8.0
Tieto Czech Support Services s.r.o., Czech Republic	100.0	0.0
Tieto Denmark A/S, Denmark	100.0	5.3
Tieto DK A/S, Denmark	100.0	1.6
Tieto Estonia AS, Estonia	100.0	3.3
Tieto Finland Oy, Finland	100.0	134.5
Tieto Finland Support Services Oy, Finland	100.0	1.6
Tieto Germany GmbH, Germany	100.0	0.5
Tieto Global Oy, Finland	100.0	1.1
Tieto Great Britain Ltd, Great-Britain	100.0	0.5
Tieto Healthcare & Welfare Oy, Finland	100.0	2.6
Tieto India Pvt. Ltd., India	20.3	1.3
Tieto Latvia SIA, Latvia	100.0	10.3
Tieto Lietuva UAB, Lithuania	100.0	2.6
Tieto Netherlands Holding B.V., Netherlands	100.0	24.5
Tieto Norway AS, Norway	100.0	172.5
Tieto Poland Sp. z o.o., Poland	100.0	3.3
Tieto Sdn Bhd, Malaysia	100.0	0.2
Tieto Singapore Pte. Ltd., Singapore	100.0	0.3
Tieto Support Services Sp. z o.o., Poland	100.0	0.4
Tieto Sweden Professional Services AB, Sweden	100.0	549.3
TietoEnator Inc., USA	100.0	8.0
Dormant subsidiaries (5 in total)		0.0
		937.3

Shares in Group companies owned by subsidiaries

	Share %	31 Dec 2016 Book value EUR million
Canvisa Consulting AB, Sweden	100.0	0.6
Emric AB, Sweden	100.0	14.2
Emric d.o.o. Beograd, Serbia	100.0	0.0
Emric Finance Process Outsourcing AB, Sweden	100.0	0.4
Emric Operations AB, Sweden	100.0	0.4
Emric Partners AB, Sweden	100.0	37.5
PT Emric Asia, Indonesia	100.0	0.0
Softinn Software Services Pvt. Ltd., India	100.0	0.2
Tieto Estonia Services OÜ, Estonia	100.0	0.1
Tieto India Pvt. Ltd., India	79.7	11.6
Tieto Netherlands B.V., Netherlands	100.0	2.9
Tieto Rus OOO, Russia	100.0	2.3
Tieto Sweden AB, Sweden	100.0	250.6
Tieto Sweden Healthcare & Welfare AB, Sweden	100.0	4.4
Tieto Sweden Support Services AB, Sweden	100.0	0.0
Tieto U.S. Inc., USA	100.0	1.1
Dormant subsidiaries (1 in total)		0.0
		326.3

All subsidiary undertakings are included in the consolidation. In India the official reporting period is 1.4.–31.3. according to the Indian legislation.

Tieto Great Britain Ltd is exempt from the requirements of the Companies Act relating to the audit by virtue of section 479A of the Companies Act. The parent company Tieto Oyj has given a parent undertaking guarantee for all the outstanding liabilities of Tieto Great Britain Ltd at the end of the financial year 2016.

Significant restrictions:

Cash and short-term deposits held in China and India are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

28. JOINT VENTURES

Tieto Corporation holds interest in companies for which it has assumed management responsibility and which are jointly controlled. These joint ventures have been established in order to be able to produce the high quality IT services required by the customer.

These joint arrangements are defined to be joint ventures based on the legal form and contractual arrangements; Tieto has right to the net assets of the arrangement. According to the shareholder agreements major decisions require unanimous decision. Sales to and purchases from joint ventures are made on normal market terms and conditions and at market prices. Joint ventures are accounted by using the equity method.

Carrying values of Joint ventures

EUR million	31 Dec 2016	31 Dec 2015
At 1 Jan	3.7	4.7
Equity refund	-	-1.0
Disposals	-	-
Historical costs at 31 Dec	3.7	3.7
Equity adjustments		
At 1 Jan	13.5	14.6
Share of results	3.2	4.2
Dividends received	-3.8	-5.4
Disposal adjustments	-	-
Other comprehensive income	-0.1	0.1
Equity adjustments at 31 Dec	12.8	13.5
Carrying value at 31 Dec	16.5	17.2

Equity adjustments includes Group level goodwill EUR 10.3 million.

Joint ventures at 31 Dec 2016

	Number of shares	Share %	Voting right %	Carrying value EUR million
Tieto Esy Oy	7 300	80.0	34.0	5.6
Tietollmarinen Oy	3 570	70.0	30.0	2.5
Tietokarhu Oy	8 000	80.0	20.0	8.4
				16.5

All joint ventures are located in Finland.

Joint ventures at 31 Dec 2015

	Number of shares	Share %	Voting right %	Carrying value EUR million
Tieto Esy Oy	7 300	80.0	34.0	5.6
Tietollmarinen Oy	3 570	70.0	30.0	2.9
Tietokarhu Oy	8 000	80.0	20.0	8.7
				17.2

Financial and personnel information of Joint ventures at 31 Dec 2016

	Tieto Esy Oy	Tietollmarinen Oy	Tietokarhu Oy
Non-current assets	0.1	0.2	0.1
Interest-bearing non-current assets	4.5	1.0	10.5
Other current assets	0.9	0.6	5.7
	5.5	1.8	16.3
Other non-current liabilities	0.1	0.3	0.7
Other current liabilities	1.4	0.9	12.3
	1.5	1.2	13.0
Net sales	10.2	6.3	29.0
Expenses	-8.5	-7.0	-25.0
Depreciation and amortization	-	-	-0.1
Interest income	0.0	0.0	0.0
Interest expenses	-0.0	-0.0	-0.0
Other financial income and expenses	-0.0	-0.0	-0.0
Profit before income tax	1.7	-0.7	3.9
Income tax expense	-0.3	0.1	-0.8
Net profit	1.4	-0.6	3.1
Dividends paid to Tieto	1.0	-	2.8
Average full-time personnel during the financial year	58	38	197

Financial and personnel information of Joint ventures at 31 Dec 2015

	Tieto Esy Oy	Tietollmarinen Oy	Tietokarhu Oy
Non-current assets	0.1	0.0	0.2
Interest-bearing non-current assets	4.9	1.9	12.5
Other current assets	1.3	1.0	5.0
	6.3	2.9	17.7
Other non-current liabilities	0.2	0.2	1.4
Other current liabilities	2.2	1.5	12.6
	2.4	1.7	14.0
Net sales	12.0	9.8	33.7
Expenses	-10.7	-8.8	-29.0
Depreciation and amortization	-0.0	-0.0	-0.2
Interest income	0.0	0.0	0.0
Interest expenses	-0.0	-0.0	-0.0
Other financial income and expenses	-0.0	-0.0	-0.0
Profit before income tax	1.3	1.0	4.5
Income tax expense	-0.2	-0.2	-0.9
Net profit	1.1	0.8	3.6
Dividends paid to Tieto	1.6	0.9	2.9
Average full-time personnel during the financial year	76	58	240

There are no commitments and contingencies related to joint ventures.

29. ACQUISITIONS

Tieto completed the following acquisition during 2016:

* Emeric Partners AB, ownership 100% of the shares, acquisition date 31 August 2016

Emeric is the Nordic market leader in software and services for credit processing. The transaction supports the company's financial services business expansion in the Nordic countries and internationally. Furthermore, it accelerates Tieto's Banking as a Service offering through new competencies and software products within loan origination, lending and leasing.

The following table summarizes the consideration paid, the fair value of assets acquired and liabilities assumed at the acquisition date.

Consideration

EUR million

Paid in cash	31.7
Escrow amount	0.5
Contingent consideration	5.4
Total consideration	37.7

Recognized amounts of identifiable assets acquired and liabilities assumed

EUR million

	Recognized on acquisition
Property, plant and equipment	0.4
Intangible assets	14.5
Deferred tax assets	0.8
Trade and other receivables	2.8
Cash and cash equivalents	1.5
Deferred tax liabilities	-3.3
Trade and other payables	-5.2
Goodwill	26.2
Total	37.7

Contingent consideration is mainly determined by growth of the acquired business during years 2017 and 2018.

The identified intangible assets relate to technology and customer relationships.

The goodwill is attributable to market share and new competencies. It will not be deductible for tax purposes.

Acquisition-related costs of EUR 0.3 million are included in other expenses in the income statement and in cash flow from operations.

Since the date of acquisition, the acquired unit has contributed about EUR 6.6 million to the revenue and EUR -1.0 million to the operating profit of the Group.

If the combinations had taken place at the beginning of the year, the revenue for the Group would have been about EUR 19 million and profit about EUR -1.4 million.

Change in contingent consideration from acquisitions completed in 2015

Contingent consideration related to 2015 acquisitions and respective contingent liability decreased by EUR 2.6 million.

EUR million

Contingent consideration recognized in 2015	5.7
Change recognized in 2016	-2.6
Remaining contingent consideration	3.0

30. IMPAIRMENT TESTING OF GOODWILL

General principles

Goodwill acquired in business combinations is allocated to cash-generating units (CGU), which are the reportable service line segments in segment reporting. In July 2016 the CGU structure in IT-services changed due the alignment of the operating structure with the new strategy, and goodwill was reallocated to the new CGUs based on the relative net present values of businesses transferred to the new CGUs. As a result, the goodwill in Managed Services and Industry Products was totally allocated to Technology Services and Modernization and Industry Solutions respectively. The goodwill in Consulting and System Integration was allocated to Technology Services and Modernization, Business Consulting and Implementation and Industry Solutions. There was no changes to goodwill in Product Development Services due to the alignment of the operating structure.

The recoverable amounts of all CGUs are determined based on value-in-use calculations. The cash flow projections covering the initial four-year period have been based on financial forecasts approved by senior management supported by industry growth forecasts obtained from external sources. The growth rates used to extrapolate the cash flows for the subsequent one-year period vary between 1% and 10%, which reflect the management's estimate of the industry's long-term average growth rate. Subsequent to the five-year projection period the growth rate used is 2%, which does not exceed the expectations of growth in real terms.

Forecasted profit margins are based on actual performance in prior years adjusted for expected efficiency improvements.

The discount rate applied to cash flow projections is the weighted average pre-tax cost of capital. The discount rate is based on normalized weighted average of 30-year government bond rates in the countries where the CGUs operate. The bond rates are adjusted for the general market risk and the business risk of the CGUs. The pre-tax discount rates for the CGUs vary between 7% and 12% (between 7% and 13%).

Carrying amount of goodwill allocated to CGUs and segments

The total goodwill at 31 December 2016 was EUR 409.7 million. The increase compared to 31 December 2015 is EUR 24.8 million. Goodwill increased EUR 26.3 million due to the acquisitions and decreased EUR 1.5 million due to currency effects.

All CGUs contain goodwill that may be considered significant in comparison with the Group's total carrying amount of goodwill. Every CGU represent business operations providing services to selected customers in their market segments.

In CGU Technology Services and Modernization the carrying amount of goodwill allocated to the CGU at 31 December 2016 was EUR 168.9 million. The recoverable amount of the CGU has been calculated in accordance with the general principles described above. The growth rate for the initial four-year period varies between 1% and 2% and EBITDA margin between 16% and 18%. The growth rate used to extrapolate the cash flows for the subsequent one-year period is 1%. The discount rate applied to the cash flow projections is 7.2%.

In CGU Business Consulting and Implementation the carrying amount of goodwill allocated to the CGU at 31 December 2016 was EUR 25.4 million. The recoverable amount of the CGU has been calculated in accordance with the general principles described above. The growth rate for the initial four-year period varies between 10% and 11% and EBITDA margin between 6% and 12%. The growth rate used to extrapolate the cash flows for the subsequent one-year period is 10%. The discount rate applied to the cash flow projections is 7.3%.

In CGU Industry Solutions the carrying amount of goodwill allocated to the CGU at 31 December 2016 was EUR 155.6 million. The recoverable amount of the CGU has been calculated in accordance with the general principles described above. The growth rate for the initial four-year period varies between 7% and 12% and EBITDA margin between 14% and 18%. The growth rate used to extrapolate the cash flows for the subsequent one-year period is 8%. The discount rate applied to the cash flow projections is 7.9%.

In CGU Product Development Services the carrying amount of goodwill allocated to the CGU at 31 December 2016 was EUR 59.8 million. The recoverable amount of the CGU has been calculated in accordance with the general principles described above. The growth rate for the initial four-year period varies between 4% and 8% and EBITDA margin between 10% and 12%. The growth rate used to extrapolate the cash flows for the subsequent one-year period is 5%. The discount rate applied to the cash flow projections is 12.3%.

As a result of the impairment testing no impairment was identified. Value-in-use calculation for each CGU is sensitive to changes in growth assumptions, EBIT margin assumptions and interest rates. The recoverable amount in Product Development Services, EUR 116 million, is EUR 40 million above the carrying amount. The recoverable amount of CGU Product Development Services would equal its carrying amount if the key assumptions were to change as follows:

Change in annual growth rate (%-units)	n/a
Change in EBIT margin (%-units)	-3
Change in interest rates (%-units)	+6

In the other CGUs the surplus between the recoverable amount and the carrying amount is substantial, and any likely change in the three parameters isolated would not result in the recoverable amount being equal to the carrying amount.

The carrying amounts of goodwill allocated to the CGUs are disclosed below:

Carrying amount of goodwill

EUR million	31 Dec 2016
Technology Services and Modernization	168.9
Business Consulting and Implementation	25.4
Industry Solutions	155.6
Product Development Services	59.8
Total	409.7

Other information

31. COMMITMENTS AND CONTINGENCIES

Eur million	31 Dec 2016	31 Dec 2015
For Tieto obligations		
Pledges ¹⁾	-	-
Guarantees ²⁾		
Performance guarantees	4.0	10.1
Lease guarantees	8.9	9.1
Other	1.5	4.3
Other Tieto obligations		
Rent commitments due in one year	39.7	41.4
Rent commitments due in 1–5 years	95.3	100.9
Rent commitments due after 5 years	31.4	21.2
Operating lease commitments due in one year	8.3	8.2
Operating lease commitments due in 1–5 years	8.1	12.0
Operating lease commitments due after 5 years	0.6	0.7
Commitments to purchase assets	6.2	8.5
On behalf of joint ventures	-	-
On behalf of Others		
Guarantees	0.1	0.4

¹⁾ There is an ongoing activity to cancel a local credit facility of recently acquired group company (facility was not in use as at end of December). As a collateral for the facility, company has pledged shares of one of its subsidiaries (carrying value of those shares were 14 MEUR). In addition to those, there is a General Business mortgage of 2 MEUR.

²⁾ In addition to commitments of EUR 19.9 million (EUR 9 million in 2015) related to liabilities in the Group balance sheet.

32. OPERATING LEASES

Operating lease agreements are typically rent agreements for premises, cars, servers and other data equipment and which do not fulfill the criteria for finance lease.

Rental expense relating to operating leases

EUR million	31 Dec 2016	31 Dec 2015
Premises rents	45.3	44.8
Other rental expenses of operating leases	11.5	9.9
	56.8	54.7

See note 31 for the future rent and other operating lease commitments.

Future rental income

Future minimum lease payments expected to be received from the external subleases of premises.

EUR million	31 Dec 2016	31 Dec 2015
Within one year	0.5	0.6
After one year but not more than five years	0.4	2.0
After five years	0.0	0.0

33. RELATED PARTY TRANSACTIONS

The related parties of Tieto are its subsidiaries, joint ventures, Board of Directors, President and CEO and the Leadership Team.

Transactions and balances with joint ventures

EUR million	31 Dec 2016	31 Dec 2015
Sales	2.7	4.1
Other operating income	4.4	4.2
Purchases	2.7	2.6
Receivables	0.8	1.1
Liabilities	0.2	0.4

Sales to and purchases from related parties are made on normal market terms and conditions and at market prices.

There are no commitments and contingencies on behalf of joint ventures.

In the case of some joint ventures, Tieto Corporation has committed together with the other owners to contribute to financing arrangements when necessary, in proportion to ownership and on the basis of the approved strategy plans.

Key management compensation

Tieto's key management comprises of the Board of Directors, President and CEO and the Leadership Team.

See note 9 in the Notes to the consolidated financial statements.

Subsidiaries

See note 27 in the Notes to the consolidated financial statements.

34. EVENTS AFTER THE BALANCE SHEET DATE

As part of its long-term renewal and in response to the need to increase its productivity and price competitiveness, Tieto initiated personnel negotiations in Finland on 17 January. The negotiations affect up to 250 employees. These actions are based on increased service standardization and a continuation to the global automation programme initiated in 2015. The company additionally seeks to optimize its productivity and cost structure globally. The company expects that the actions altogether, including the anticipated reductions in Finland, will result in annualized gross savings of close to EUR 40 million. It is estimated that over EUR 20 million in savings will affect the cost base for 2017.

On 9 January 2017, a total of 25 555 Tieto's treasury shares were transferred as part of the allocations related to the company's share-based reward plan. After the transfer of the shares, Tieto holds a total of 386 127 own shares.

CALCULATION OF KEY FIGURES

Earnings per share	=	$\frac{\text{Net profit for the period}}{\text{Adjusted average number of shares}}$	
Equity per share	=	$\frac{\text{Total equity}}{\text{Adjusted number of shares at the year end}}$	
Return on equity, %	=	$\frac{\text{Profit before taxes and minority interests} - \text{income taxes}}{\text{Total equity (12-month average)}} \times 100$	
Return on capital employed, %	=	$\frac{\text{Profit before taxes and minority interests} + \text{interest and other financial expenses}}{\text{Total assets} - \text{non-interest-bearing liabilities (12-month average)}} \times 100$	
Equity ratio, %	=	$\frac{\text{Total equity}}{\text{Total assets} - \text{advance payments}} \times 100$	
Interest-bearing net debt	=	$\text{Interest-bearing liabilities} - \text{interest-bearing receivables} - \text{cash and cash equivalents} - \text{securities carried as current assets}$	
Gearing, %	=	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}} \times 100$	

Parent company's financial statements

INCOME STATEMENT (FAS)

EUR	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Net sales		-	-
Other operating income	1	206 668 921.56	180 666 572.41
Personnel expenses	2	16 300 460.69	18 644 345.16
Depreciation and reduction of values	8, 9	2 972 953.39	3 241 455.19
Other operating expenses	3	199 606 628.72	172 349 928.61
Operating loss		-12 211 121.24	-13 569 156.55
Financial income and expenses	5	18 976 716.52	25 757 244.43
Profit before appropriations and taxes		6 765 595.28	12 188 087.88
Appropriations	6	47 200 000.00	38 150 000.00
Profit before taxes		53 965 595.28	50 338 087.88
Taxes	7	4 558 096.64	3 676 692.05
Profit for the financial year		49 407 498.64	46 661 395.83

BALANCE SHEET (FAS)

EUR	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets	8	7 847 123.92	2 294 884.13
Tangible assets	9	6 530 772.67	3 435 280.41
Investments	10	941 309 363.64	935 754 058.66
Total non-current assets		955 687 260.23	941 484 223.20
Current assets			
Long-term receivables			
Receivables from Group companies	11	4 285 203.29	6 127 182.56
Other receivables	11	236 733.08	429 967.17
		4 521 936.37	6 557 149.73
Current receivables			
Accounts receivable		10 849.84	44 747.30
Receivables from Group companies	12, 13	79 481 609.15	80 439 089.50
Receivables from associated companies	12, 13	145 934.68	203 987.73
Other receivables		9 731 736.50	1 710 885.90
Prepaid expenses and accrued income	13	3 312 598.41	3 689 677.58
		92 682 728.58	86 088 388.01
Cash and cash equivalents		28 099 538.17	96 672 378.50
Total current assets		125 304 203.12	189 317 916.24
TOTAL ASSETS		1 080 991 463.35	1 130 802 139.44

EUR	Note	31 Dec 2016	31 Dec 2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	14		
Share capital		76 555 412.00	76 555 412.00
Share subscriptions based on stock options		-	28 668.20
Share issue premiums		13 791 579.51	13 791 579.51
Invested unrestricted equity reserve		12 843 921.39	12 061 061.17
Retained earnings		520 106 368.68	571 526 514.13
Net profit for the current year		49 407 498.64	46 661 395.83
		672 704 780.22	720 624 630.84
Provisions	15	2 194 205.70	5 327 034.26
Liabilities			
Non-current liabilities			
Bonds	16	100 000 000.00	100 000 000.00
Other non-current liabilities	16	5 881.98	5 410.01
		100 005 881.98	100 005 410.01
Current liabilities	17		
Accounts payable		10 082 659.50	5 947 239.94
Liabilities to Group companies	17, 18	217 069 985.68	215 899 250.26
Liabilities to associated companies	17, 18	16 004 302.68	19 343 547.22
Loans		51 283 429.04	50 055 803.21
Other current liabilities		1 518 526.53	2 347 405.39
Accrued liabilities and deferred income	18	10 127 692.02	11 251 818.31
		306 086 595.45	304 845 064.33
Total liabilities		406 092 477.43	404 850 474.34
TOTAL EQUITY AND LIABILITIES		1 080 991 463.35	1 130 802 139.44

STATEMENT OF CASH FLOWS (FAS)

EUR	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Cash flow from operations		
Profit before extraordinary items	6 765 595.28	12 188 087.91
Adjustments		
Depreciation and reduction of values	2 972 953.39	3 241 455.19
Financial income and expenses	-18 976 716.52	-25 757 244.43
Other non-cash items	-2 022 576.24	-5 219 430.13
Cash generated from operations before net working capital	-11 260 744.09	-15 547 131.46
Change in working capital		
Change in current receivables	-2 942 934.39	6 872 935.59
Change in current non-interest-bearing liabilities	-7 864 888.57	-5 381 994.04
Cash generated from operations	-22 068 567.05	-14 056 189.91
Interest expenses paid and other financial expenses	-14 277 137.62	-18 847 442.74
Interest income received	11 382 172.35	11 867 216.32
Dividend received and equity refund	23 124 808.69	34 609 143.37
Income taxes paid	-11 311 094.93	-2 610 485.95
Net cash flow from operations	-13 149 818.56	10 962 241.09
Cash flow from investing activities		
Purchase of tangible and intangible assets	-11 488 871.43	-3 045 911.72
Proceeds from sale of tangible and intangible assets	-	22 400.00
Acquisition of Group companies and business operations	-5 621 835.91	-68 306 435.29
Proceeds from sale of Group companies	58 902.81	-
Loans granted	-5 284 600.11	-18 775 327.67
Proceeds from repayments of loans	8 463 082.59	14 815 353.73
Total net cash used in investing activities	-13 873 322.05	-75 289 920.95
Cash flow from financing activities		
Dividends paid	-99 361 904.85	-95 227 146.30
Proceeds from issuance of share capital	782 860.22	3 601 281.44
Proceeds from short-term borrowings	661 492 416.88	58 567 071.39
Repayments in short-term borrowings	-647 547 178.36	-6 339 170.00
Change in intercompany cash pool, net	4 934 106.39	47 232 989.83
Group contributions received	38 150 000.00	34 100 000.00
Total net cash used in financing activities	-41 549 699.72	41 935 026.36
Change in cash and cash equivalents	-68 572 840.33	-22 392 653.50
Cash and cash equivalents at beginning of period	96 672 378.50	119 065 032.00
Cash and cash equivalents at end of period	28 099 538.17	96 672 378.50
	-68 572 840.33	-22 392 653.50

Notes to the parent company's financial statements (FAS)

PARENT COMPANY ACCOUNTING PRINCIPLES

The financial statements of the Parent company Tieto Corporation are prepared in accordance with Finnish Accounting Standards (FAS).

Tieto Corporation is a Finnish public limited company organized under the laws of Finland and domiciled in Helsinki. The company is listed on NASDAQ Helsinki and Stockholm. The Board of Directors approved the financial statements to be published 2 February 2017. According to the Limited Liability Companies Act the shareholders have at the Annual General Meeting the right to approve, disapprove or change the financial statements after the publication.

Foreign currency items

Foreign currency transactions are initially translated at the exchange rate prevailing on the transaction date. Foreign currency items at the end of the financial period are valued at the exchange rates on the balance sheet date. Foreign currency items are hedged using derivative contracts.

Exchange gains and losses on net financial liabilities are reported in the income statement under financial items, while other exchange gains or losses are included in operating profit. Gains and losses arising from revaluation of derivative contracts are, depending on their nature, reported either under financial items or operating profit.

Other operating income

Other operating income mainly includes internal service fees, rental income and gains from asset disposals.

Pension arrangements

The company's pension obligations are administered through pension insurance institutions. Pension obligations are fully covered.

Financial instruments

Classification

Financial assets are classified into the following categories:

1. At fair value through profit or loss

Derivatives, comprising foreign exchange forward contracts, currency options, power derivatives and interest rate swaps.

2. Loans and receivables

Fixed-term deposits, principally comprising of funds held with banks and other financial institutions, and short-term and long-term loan receivables, as well as trade and other receivables, are classified as loans and receivables. In the balance sheet, they are reported according to their nature either in trade and other receivables, loan receivables or cash and cash equivalents (current assets) or in loan receivables or other non-current assets (non-current assets). Investments in money market instruments are reported as short-term deposits under cash and cash equivalents.

3. Available-for-sale financial assets

Investments in equity instruments, except for investments in associated companies and joint ventures, are classified as assets available-for-sale. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Financial liabilities are classified into categories:

1. At fair value through profit or loss

Derivatives, comprising foreign exchange forward contracts, currency options, power derivatives and interest rate swaps.

2. Financial liabilities measured at amortized cost

Short-term borrowings and overdrafts as well as long-term loans and trade and other payables are classified as financial liabilities measured at amortized cost. Loans are included in non-current and current liabilities.

Recognition and de-recognition

The company applies the Finnish Accounting Act chapter 5 section 2A and records financial instruments initially at fair value. Transaction costs are included in the carrying value if the financial instrument is not recorded at fair value through profit or loss. Usually the fair value equals amount received or paid.

Regular way purchases and sales of financial assets are accounted for at trade date, the date on which Tieto Oy commits to purchase or sell the asset, for all categories of financial assets, where entity holds them and which are not derivatives.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized when they are extinguished, that is when the obligation is discharged, cancelled or expired.

Subsequent measurement

Subsequent measurement of financial instruments depends on the designation of the instruments.

- Financial assets and liabilities at fair value through profit or loss

Derivatives are held for trading and valued at fair value. Foreign exchange derivatives' fair values are calculated according to closing date's foreign exchange and interest rates. Interest rate swaps are valued according to the present value of their cash flows, supported by all relevant market data. Related valuation changes are reported, depending on their nature, in the income statement in the financial income and expenses, in other income from

operations and other operating expenses in exchange rate gains and losses (foreign exchange forward contracts) and in other financial income and expenses (currency options). The rest of the valuation changes are shown in interest income and expenses (interest rate swaps) and in other operating expenses (power derivatives), except for when applying hedge accounting where fair value changes are reported in other comprehensive income.

In the balance sheet the fair value of financial assets from this category are reported under trade and other receivables or trade and other payables if asset or liability due in less than 12 months. In case the asset or liability is due in later than 12 months, it is reported under other non-current assets and liabilities in the balance sheet.

- Loans and receivables

Loans and receivables are subsequently carried at amortized cost, using the effective interest rate method.

- Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value if fair value can be measured reliably. Unrealized gains and losses are recognized in shareholders' equity. If fair value is not available, the assets are held at initial value. The available-for-sale assets are reported under other non-current assets in the balance sheet. When the investment is sold, the accumulated fair value adjustment is recognized in the income statement.

- Financial liabilities measured at amortized cost

Interest expense and transaction costs are amortized in the income statement over the maturity of the loan using the effective interest method.

Appropriations

Group contributions are included in appropriations.

Valuation of fixed assets

Fixed assets are carried at cost less accumulated depreciation. Depreciation is charged according to plan based on the estimated economic

lives of the individual assets and accounted for in accordance with the straight-line method.

The company applies the following economic lives:

	Years
Intangible assets (software)	1-3
Goodwill from operations	3-5
Other capitalized expenditure	5-10
Buildings	25-40
Data processing equipment ¹⁾	1-5
Other machinery and equipment	5
Other tangible assets	5

¹⁾ Purchases of personal computers are expensed immediately.

Leases of equipment are classified as operating leases.

Income taxes

The income statement includes the company's income taxes based on taxable profit for the period according to local tax regulations as well as adjustments to prior-year taxes. The information related to deferred tax items is included in the notes.

1. OTHER OPERATING INCOME

EUR	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Gain from sale of other fixed assets and shares	-	21 057.24
Merger gains	150 393.12	-
Gain on liquidation of subsidiary	119 153.97	-
Rental income	31 437 139.45	33 364 080.19
Internal service fees	157 249 749.35	142 606 698.62
Other income	17 712 485.67	4 674 736.36
	206 668 921.56	180 666 572.41

2. PERSONNEL EXPENSES

EUR	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Wages and salaries	13 067 290.28	14 948 288.11
Pension expenses	2 506 523.58	2 843 357.45
Other pay-related statutory social costs	726 646.83	852 699.60
	16 300 460.69	18 644 345.16

The parent company had an average of 146 employees during 2016 and 157 employees in 2015.

3. OTHER OPERATING EXPENSES

EUR	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Voluntary personnel expenses	1 790 912.57	2 450 846.57
Licenses and maintenance	10 978 477.59	9 818 412.96
ICT and data communication expenses	6 624 254.04	31 437 751.94
Administrative expenses	33 066 920.06	16 185 165.14
Rents and other premises expenses	30 652 386.26	29 975 420.68
Other operating expenses	116 493 678.20	82 482 331.32
	199 606 628.72	172 349 928.61

EUR	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Fees to auditors		
Authorized Public Accountants, PwC		
Audit fees	160 000.00	160 000.00
Tax consultation	156 000.00	297 000.00
Other services	157 000.00	300 000.00
	473 000.00	757 000.00

4. MANAGEMENT REMUNERATION

See Note 9 in Notes to the consolidated financial statements.

5. FINANCIAL INCOME AND EXPENSES

EUR	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Dividend income		
Dividend income from Group companies	19 301 828.69	28 532 603.37
Dividend income from associated companies	3 822 700.00	5 427 300.00
Dividend income from other companies	280.00	240.00
	23 124 808.69	33 960 143.37
Other interest and financial income		
From Group companies	1 461 256.61	3 198 700.04
From other companies	17 284 264.35	15 978 518.44
	18 745 520.96	19 177 218.48
Investment write-downs	-128 265.99	-2 691 169.91
Interest and other financing expenses		
To Group companies	-702 252.09	-2 542 389.05
To other companies	-22 063 095.05	-22 146 558.46
	-22 765 347.14	-24 688 947.51
Total financial income and expenses	18 976 716.52	25 757 244.43

6. APPROPRIATIONS

EUR	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Group contributions received	47 200 000.00	38 150 000.00

7. TAXES

EUR	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Taxes for the financial period / appropriations	9 440 000.00	7 630 000.00
Taxes for the financial period / regular operations	-4 881 903.36	-4 461 907.95
Taxes for the previous years	-	508 600.00
	4 558 096.64	3 676 692.05

8. INTANGIBLE ASSETS

EUR	31 Dec 2016	31 Dec 2015
Intangible rights		
Acquisition cost, 1 Jan	11 228 684.79	11 104 961.19
Increases	100 000.00	123 723.60
Decreases	-65 919.89	-
Acquisition cost, 31 Dec	11 262 764.90	11 228 684.79
Accumulated amortization, 1 Jan	10 614 085.31	9 888 635.01
Accumulated amortization for decreases and transfers	-60 219.26	-
Amortization for the period	494 283.53	725 450.30
Accumulated amortization, 31 Dec	11 048 149.58	10 614 085.31
Book value, 31 Dec	214 615.32	614 599.48
Other capitalized expenditures		
Acquisition cost, 1 Jan	10 139 309.19	9 330 474.22
Increases	6 128 611.06	913 699.26
Decreases	-1 038 710.55	-107 311.59
Transfers	-20 101.80	2 447.30
Acquisition cost, 31 Dec	15 209 107.90	10 139 309.19
Accumulated amortization, 1 Jan	8 459 024.54	7 451 173.35
Accumulated amortization for decreases and transfers	-1 014 686.44	-21 230.41
Amortization for the period	924 989.50	1 029 081.60
Accumulated amortization, 31 Dec	8 369 327.60	8 459 024.54
Book value, 31 Dec	6 839 780.30	1 680 284.65
Advance payments		
Acquisition cost, 1 Jan	-	-
Increases	792 728.30	-
Acquisition cost, 31 Dec	792 728.30	-
Book value of intangible assets, 31 Dec total	7 847 123.92	2 294 884.13

9. TANGIBLE ASSETS

EUR	31 Dec 2016	31 Dec 2015
Land		
Acquisition cost, 1 Jan	60 270.13	60 270.13
Acquisition cost, 31 Dec	60 270.13	60 270.13
Buildings and structures		
Acquisition cost, 1 Jan	-	861 062.06
Acquisition cost, 31 Dec	-	861 062.06
Accumulated depreciation, 1 Jan	-	833 031.01
Depreciation for the period	-	28 031.05
Accumulated depreciation, 31 Dec	-	861 062.06
Book value, 31 Dec	-	-
Machinery and equipment		
Acquisition cost, 1 Jan	27 003 694.39	24 808 056.80
Increases	4 590 108.38	2 296 771.88
Decreases	-1 207 001.93	-98 686.99
Transfers	20 101.80	-2 447.30
Acquisition cost, 31 Dec	30 406 902.64	27 003 694.39
Accumulated depreciation, 1 Jan	23 666 054.41	22 212 211.40
Accumulated depreciation for decreases	-1 172 727.01	-5 049.23
Depreciation for the period	1 489 167.50	1 458 892.24
Accumulated depreciation, 31 Dec	23 982 494.90	23 666 054.41
Book value, 31 Dec	6 424 407.74	3 337 639.98
Other tangible assets		
Acquisition cost, 1 Jan	37 370.30	37 370.30
Increases	9 237.70	-
Acquisition cost, 31 Dec	46 608.00	37 370.30
Accumulated depreciations, 1 Jan	-	-
Depreciation for the period	513.20	-
Accumulated depreciation, 31 Dec	513.20	-
Book value, 31 Dec	46 094.80	37 370.30
Book value of tangible assets, 31 Dec total	6 530 772.67	3 435 280.41

10. INVESTMENTS

EUR	31 Dec 2016	31 Dec 2015
Subsidiary shares		
Acquisition cost, 1 Jan	931 770 570.10	861 864 134.81
Increases	5 820 940.98	69 906 435.29
Decreases	-258 019.09	-
Write-downs	-7 628.12	-
Acquisition cost, 31 Dec	937 325 863.87	931 770 570.10
Book value, 31 Dec	937 325 863.87	931 770 570.10
Shares in associated companies		
Acquisition cost, 1 Jan	3 691 222.57	4 735 994.28
Increases	11.21	-
Decreases	-	-1 044 771.71
Acquisition cost, 31 Dec	3 691 233.78	3 691 222.57
Book value, 31 Dec	3 691 233.78	3 691 222.57
Other shares and interests		
Acquisition cost, 1 Jan	292 265.99	292 265.99
Acquisition cost, 31 Dec	292 265.99	292 265.99
Book value, 31 Dec	292 265.99	292 265.99
Investments, 31 Dec total	941 309 363.64	935 754 058.66

Subsidiary shares

See Note 27 in Notes to the consolidated financial statements.

Associated companies owned and managed by the parent company

See Note 28 in Notes to the consolidated financial statements.

Other shares and securities

See Note 16 in Notes to the consolidated financial statements.

See Note 25 in Notes to the consolidated financial statements for Fair Value calculation principles and note 21 in Notes to the Parent company's financial statements for Fair value Levels.

11. LONG-TERM RECEIVABLES

EUR	31 Dec 2016	31 Dec 2015
Loan receivable from Group companies	4 285 203.29	6 127 182.56
Other receivables	236 733.08	429 967.17
	4 521 936.37	6 557 149.73

12. CURRENT INTERCOMPANY RECEIVABLES

EUR	31 Dec 2016	31 Dec 2015
Receivables from Group companies		
Accounts receivable	10 912 137.88	12 756 196.32
Loan receivables	3 200 474.27	19 228 171.51
Other receivables	17 747 865.80	9 789 192.41
Group contributions receivable	47 200 000.00	38 150 000.00
Prepaid expenses and accrued income	421 131.20	515 529.26
	79 481 609.15	80 439 089.50
Receivables from associated companies		
Accounts receivable	140 238.15	203 987.73
Prepaid expenses and accrued income	5 696.53	-
	145 934.68	203 987.73

13. PREPAID EXPENSES AND ACCRUED INCOME

EUR	31 Dec 2016	31 Dec 2015
Prepaid expenses and accrued income from Group companies		
Other	421 131.20	515 529.26
Prepaid expenses and accrued income from associated companies	5 696.53	-
Prepaid expenses and accrued income from other companies		
Licence fees	1 877 020.40	2 333 511.89
Social costs	179 401.62	93 815.13
Receivables on stock options	-	28 668.20
Other	1 256 176.39	1 233 682.36
Total	3 312 598.41	3 689 677.58
Prepaid expenses and accrued income, total	3 733 729.61	4 205 206.84

14. CHANGES IN SHAREHOLDERS' EQUITY

EUR	31 Dec 2016	31 Dec 2015
Restricted equity		
Share capital, 1 Jan	76 555 412.00	76 555 412.00
Share capital, 31 Dec	76 555 412.00	76 555 412.00
Share issue premiums, 1 Jan	13 791 579.51	13 791 579.51
Share issue premiums, 31 Dec	13 791 579.51	13 791 579.51
Restricted equity total	90 346 991.51	90 346 991.51
Unrestricted equity		
Invested unrestricted equity reserve, 1 Jan	12 089 729.37	8 919 947.1
Share subscriptions based on stock options	754 192.02	3 141 114.04
Share subscriptions based on stock options, not yet registered	-	28 668.20
Invested unrestricted equity reserve, 31 Dec	12 843 921.39	12 089 729.37
Retained earnings, 1 Jan	618 187 909.96	665 944 406.80
Shares distributed to personnel	1 280 363.57	809 253.63
Dividend distributions	-99 361 904.85	-95 227 146.30
Retained earnings, 31 Dec	520 106 368.68	571 526 514.13
Net profit for the period	49 407 498.64	46 661 395.83
Unrestricted equity total	582 357 788.71	630 277 639.33
Shareholders' equity, total	672 704 780.22	720 624 630.84
Distributable funds		
Invested unrestricted equity reserve	12 843 921.39	12 089 729.37
Retained earnings	520 106 368.68	571 526 514.13
Net profit for the period	49 407 498.64	46 661 395.83
Total	582 357 788.71	630 277 639.33
Breakdown of the parent's share capital		
Number of shares	74 109 252	74 009 953
Euros	76 555 412.00	76 555 412.00

15. PROVISIONS

EUR	31 Dec 2016	31 Dec 2015
Pension commitments	67 106.84	114 375.48
Restructuring commitments	2 127 098.86	4 892 658.78
Costs related to divestments	-	320 000.00
	2 194 205.70	5 327 034.26

16. NON-CURRENT LIABILITIES

EUR	31 Dec 2016	31 Dec 2015
Bonds	100 000 000.00	100 000 000.01
Other non-current liabilities	5 881.98	5 410.00
	100 005 881.98	100 005 410.01

Fair value of bond has been calculated based on prevailing market rate at the end of the reporting period and as of 31 Dec 2016 was EUR 105 792 000 (EUR 104 875 000 in 2015).

17. CURRENT LIABILITIES

EUR	31 Dec 2016	31 Dec 2015
Liabilities to Group companies		
Accounts payable	3 294 048.46	537 792.53
Other liabilities including cash pool	208 857 050.67	201 138 637.08
Accrued liabilities and deferred income	4 918 886.55	14 222 820.65
	217 069 985.68	215 899 250.26
Liabilities to associated companies		
Accounts payable	2 601.03	15 297.26
Other liabilities	16 001 701.65	19 328 249.96
	16 004 302.68	19 343 547.22
Liabilities to other companies		
Accounts payable	10 082 659.50	5 947 239.94
Commercial papers	50 997 275.17	50 055 803.21
Other loans	286 153.87	-
Other current liabilities	1 518 526.53	2 347 405.39
Accrued liabilities and deferred income	10 127 692.02	11 251 818.31
	73 012 307.09	69 602 266.85
Current liabilities, total	306 086 595.45	304 845 064.33

Loans and receivables and financial liabilities are held at amortized cost using the effective interest rate method. Their carrying amounts are considered to approximate their fair value, except for the fixed rate bond where carrying amount has not been adjusted to match the fair value.

18. ACCRUED LIABILITIES AND DEFERRED INCOME

EUR	31 Dec 2016	31 Dec 2015
Accrued liabilities and deferred income from Group companies		
Personnel related expenses	523 570.85	533 386.94
Service fee	4 393 777.10	12 061 300.23
Interest	532.92	9 854.77
Other	1 005.68	1 618 278.71
Total	4 918 886.55	14 222 820.65
Accrued liabilities and deferred income from other companies		
Vacation pay and related social costs	2 032 459.96	2 077 544.92
Other accrued payroll and related social costs	1 011 554.11	1 594 304.80
Other social costs	21 294.04	-
Interest	1 749 792.57	1 812 084.13
Rents	3 218 105.28	3 289 266.91
Taxes	851 343.40	1 658 763.69
Other	1 243 142.66	819 853.86
Total	10 127 692.02	11 251 818.31
Accrued liabilities and deferred income, total	15 046 578.57	25 474 638.96

19. DEFERRED TAX ASSETS AND LIABILITIES

EUR	31 Dec 2016	31 Dec 2015
Deferred tax assets		
From temporary differences	1 490 183.93	2 270 426.5
From appropriations	90 943.81	502 791.73
Total	1 581 127.74	2 773 218.19

Deferred tax items are not included in the balance sheet.

20. CONTINGENT LIABILITIES

EUR	31 Dec 2016	31 Dec 2015
For Tieto's obligations		
Pledges	-	-
On behalf of Group companies		
Guarantees	14 104 509.71	22 524 864.37
On behalf of joint ventures	-	-
On behalf of other companies		
Guarantees	-	-
Other Tieto obligations		
Rent commitments due in 2017 (2016)	13 958 854.00	17 944 666.00
Rent commitments due later	55 624 452.00	45 028 395.00
Lease commitments due in 2017 (2016)	312 727.41	338 916.43
Lease commitments due later	352 459.48	488 180.90

Lease commitments are principally three-year lease agreements that do not include buyout clauses.

In addition to the above mentioned contingent liabilities, the Parent company has provided security relating to certain major contracts, regarding IPR indemnity clauses. The maximum amount of these liabilities does not exceed EUR 15 million (15 million in 2015).

Tieto Great Britain Ltd is exempt from the requirements of the Companies Act relating to the audit by virtue of section 479C of the Companies Act. The parent company Tieto Oyj has given a parent undertaking guarantee for all the outstanding liabilities of Tieto Great Britain Ltd at the end of the financial year 2016.

21. DERIVATIVES

Notional amounts of derivatives

Includes the gross amount of all notional values for contracts that have not yet been settled or closed. The amount of notional value outstanding is not necessarily a measure or indication of market risk, as the exposure of certain contracts may be offset by other contracts.

EUR	31 Dec 2016	31 Dec 2015
Foreign exchange forward contracts	255 688 434.01	455 099 869.99
Forward contracts outside hedge accounting	255 688 434.01	429 899 869.99
Forward contracts within hedge accounting	-	25 200 000.00
Electricity price futures contracts outside hedge accounting	539 966.40	270 085.20

Fair values of derivatives

Foreign exchange derivatives' fair values are calculated according to foreign exchange and interest rates on the closing date.

The net fair values of derivative financial instruments at the balance sheet date	31 Dec 2016	31 Dec 2015
Foreign exchange forward contracts	1 315 609.00	1 332 938.46
Electricity price futures contracts	65 564.60	-101 680.75

Derivatives are used for economic purposes only.

Gross positive fair values of derivatives	31 Dec 2016	31 Dec 2015
Foreign exchange forward contracts	2 956 526.50	4 050 797.33
Electricity price futures contracts outside hedge accounting	65 677.40	-

Gross negative fair values of derivatives	31 Dec 2016	31 Dec 2015
Foreign exchange forward contracts	-1 640 917.50	-2 717 858.87
Electricity price futures contracts outside hedge accounting	-112.80	-101 680.75

The Company has been hedging highly probable forecast transactions denominated in foreign currency externally with banks on behalf of its' subsidiaries with equal back-to-back internal transactions.

Fair value measurement of financial assets and liabilities

31 Dec 2016

EUR	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	3 022 203.90	-	3 022 203.90
Available-for-sale investments	-	-	292 265.99	292 265.99
Financial liabilities at fair value through profit or loss				
Derivatives	-	-1 641 030.30	-	-1 641 030.30

31 Dec 2015

EUR	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	4 050 797.33	-	4 050 797.33
Available-for-sale investments	-	-	292 265.99	292 265.99
Financial liabilities at fair value through profit or loss				
Derivatives	-	-2 819 539.62	-	-2 819 539.62

See note 16 in Notes to the consolidated financial statements for breakdown on available-for-sale investments.

There were no transfers between levels 1 and 2 during the year.

There were no changes in Level 3 instruments for the year ended 31 December 2016.

22. MANAGEMENT OF FINANCIAL RISKS

The operative management of the treasury activities of Tieto is centralized into Group Treasury, which is operated from Parent company. The Group Treasury is responsible for managing the Group's financial risk position and maintaining adequate liquidity. The Treasury Policy, which has been approved by the board of directors, defines the principles for measuring and managing liquidity risk, interest rate risk, foreign exchange risks and counterparty risk of the Group. The Treasury Policy also defines the division of responsibilities with regard to financial risk management. The Group reviews and monitors financial risks on a regular basis.

Financial risks are assessed, measured and managed on a Group level. See Note 24 in Notes to the consolidated financial statements.

Shares and shareholders

Share capital and shares

Tieto Corporation's issued and registered share capital on 31 December 2016 totalled EUR 76 555 412.00 and the number of shares was 74 109 252.

Tieto's shares have no par value and their book countervalue is one euro. Tieto's shares are listed on NASDAQ in Helsinki and Stockholm. The company has one class of shares, with each share conferring equal dividend rights and one vote. The company's Articles of Association include a restriction on voting at the Annual General Meeting, where no-one is allowed to vote with more than one-fifth of the votes represented at the meeting. The Articles of Association are available at www.tieto.com/investors.

Shareholders and holding of own shares

The company had 26 029 registered shareholders at the end of 2016. Based on the ownership records of the Finnish and Swedish central securities depositories, 36.9% of Tieto's shares were held by Finnish and 3.0% by Swedish investors. In total, there were 24 408 retail investors in Finland and Sweden and they held 13% of Tieto's shares.

The members of the Board of Directors, the President and CEO and their close associates together held 0.16% of the shares and votes, and none of option rights registered in the book-entry system on 31 December 2016. The President and CEO is also participating in Tieto's Performance Share Plans 2015 and 2016 in which potential rewards will be paid partly in Tieto shares. As the number of additional shares related to these incentives is dependent on the company's performance these are not included in this aggregate number. Additionally, he was granted 4 256 shares based on a share-based reward plan running until the end of 2016. These shares were transferred on 9 January 2017. The company has not issued any bonds with warrants.

Tieto has three longer-term shareholders holding 10% or more of the shares: Cevian Capital Partners Ltd, Solidium Oy and Silchester International Investors LLP.

Based on the latest information (31 August 2016), Cevian Capital's holding was 11 066 684 shares, representing 14.9% of the shares and voting rights. Solidium Oy held 10.0% of Tieto's shares on 31 December 2016. Based on its announcement made on 23 June 2015, Silchester International Investors LLP's aggregate holding in Tieto was 7 401 027 shares, which represents 10.0% of the shares and voting rights.

Tieto is not aware of any shareholder agreements or cross-shareholdings that would limit the amount of shares available for trading. Additionally, since the company's stock option programmes have expired, the free float of the shares can be considered to be 100% excluding the treasury shares currently held by the company.

At the end of 2016, the number of shares in the company's or its subsidiaries' possession totalled 411 682 representing 0.6% of the total number of shares and voting rights. In March, the Board of Directors decided on a directed share issue related to the reward payment for Tieto's Long-Term Incentive Programme. In the share issue, 53 402 Tieto shares held by the company were conveyed without consideration to the Leadership Team members participating in the programme. The number of outstanding shares, excluding the treasury shares, was 73 697 570 at the end of the year.

Share-based incentives

In 2015, Tieto established two share-based incentive plans, a Performance Share Plan 2015 and a Restricted Share Plan 2015. New plans, Performance Share Plan 2016 and a Restricted Share Plan 2016, were established in 2016.

The potential rewards from these incentive plans will be paid partly in the company's shares and partly in cash in 2018 (2015 plan) and 2019 (2016 plan). Share rewards under the plans will consist of shares to be acquired from the market. Thus, the incentive plan will have no dilutive effect. The rewards to be paid on the basis of the 2015 and 2016 plans correspond to the value of an approximate maximum total of 960 000 Tieto shares, including the proportion to be paid in cash.

Share-based reward plan, established in 2014, ended at the end of 2016. Based on the plan, a

total of 25 555 shares were transferred as rewards on 9 January 2017.

Tieto currently has no options programmes after the subscription period for stock options 2009C ending on 31 March 2016. A total of 99 299 share were registered in the Trade Register during the year based on subscriptions.

Tieto's incentives are described in more detail at www.tieto.com/investors.

Board authorizations

The 2016 Annual General Meeting authorized the Board of Directors to decide on the repurchase of the company's own shares. The amount of own shares to be repurchased shall not exceed 7 200 000 shares, which currently corresponds to approximately 10% of all the shares in the company. The authorization is intended to be used to develop the company's capital structure.

Share performance and trading

In 2016, the turnover of Tieto's shares totalled EUR 864.6 million (34 827 778 shares) in Helsinki and SEK 412.9 million (1 802 382 shares) in Stockholm. The combined trading volume represented 49% of the shares. On NASDAQ Helsinki, the volume-weighted average share price in 2016 was EUR 24.83. At the end of the year, the share price was EUR 25.92. The highest price was EUR 28.47 and the lowest EUR 22.20. At the end of the year, the company's market capitalization totalled EUR 1 920.9 (1 829.5) million. The share price rose by 5% in Helsinki and 10% in Stockholm during the year. At the same time, the OMX Helsinki Price Index rose by 4%. The OMX Stockholm Price Index was up by 6% in 2016.

In addition to NASDAQ Helsinki and Stockholm, Tieto's share is traded on multilateral trading facilities (MTF). Shares were traded at least on Chi-X, Turquoise and BATS Europe. The aggregate number of Tieto's shares traded on these marketplaces was 13 019 928 shares, or approximately 26% of the total trading volume.

For additional information on shares and shareholders, see www.tieto.com/Investors/Shares.

SHARE INFORMATION

	2016	2015	2014	2013	2012
Number of shares					
Number of shares	74 109 252	74 009 953	73 675 903	73 132 367	72 377 213
Outstanding shares ¹⁾					
At year end	73 697 570	73 544 869	73 165 084	72 590 573	71 823 513
Average	73 660 433	73 426 563	72 944 228	72 369 221	71 659 278
Share capital at year end, EUR					
	76 555 412	76 555 412	76 555 412	76 555 412	75 952 174
Per share data					
Earnings per share, EUR					
Basic	1.46	1.23	0.48	0.86	0.41
Diluted	1.46	1.23	0.48	0.86	0.41
Equity per share, EUR					
	6.62	6.57	6.44	7.08	7.30
Share price performance and trading volumes					
NASDAQ Helsinki					
Highest price of share, EUR	28.47	25.00	22.64	18.43	15.78
Lowest price of share, EUR	22.20	19.98	16.15	14.20	11.01
Average price of share, EUR	24.83	22.48	19.45	16.09	13.53
Turnover, number of shares	34 827 778	37 041 013	28 085 320	26 657 716	38 797 365
Turnover, %	47.0	50.0	38.1	36.5	53.6
NASDAQ Stockholm					
Highest price of share, SEK	275.90	246.10	207.90	155.00	139.50
Lowest price of share, SEK	205.70	183.00	142.10	123.00	97.55
Average price of share, SEK	229.09	210.32	177.45	140.05	119.50
Turnover, number of shares	1 802 382	1 802 615	3 138 593	1 511 176	4 635 237
Turnover, %	2.4	2.4	4.3	2.1	6.4
Market capitalization, EUR million					
	1 920.9	1 829.5	1 584.8	1 202.3	1 077.7
Dividends					
Dividend, EUR 1 000					
	101 001	99 290	95 177	65 369	59 709
Dividend per share, EUR					
	1.37	1.35	1.30	0.90	0.83
Payout ratio, %					
	93.8	109.8	270.8	104.7	202.4
Price-weighted ratios					
NASDAQ Helsinki					
Price per earnings ratio (P/E)	18	20	45	19	36
Dividend yield, %	5.3	5.5	6.0	5.5	5.6
NASDAQ Stockholm					
Price per earnings ratio (P/E)	18	20	45	19	36
Dividend yield, %	5.3	5.5	6.0	5.4	5.6

¹⁾ Adjusted for shares held by the company

Share price development and turnover, Helsinki



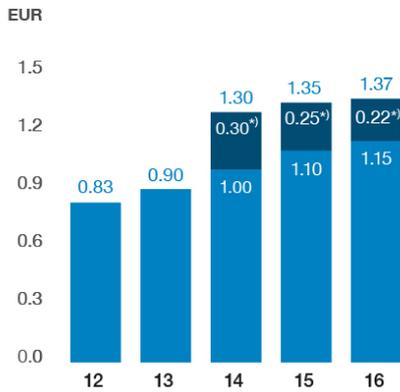
Source: Thomson Reuters

Share price development and turnover, Stockholm



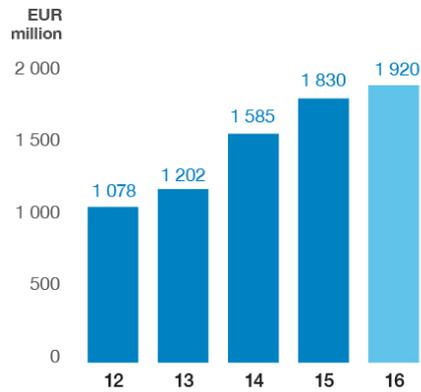
Source: Thomson Reuters

Dividend / share, EUR



¹⁾ Additional dividend EUR

Market capitalization, EUR million



Major shareholders on 31 December 2016

	Shares	%
1 Cevian Capital *)	11,066,684	14.9
2 Solidium Oy	7,415,418	10.0
3 Silchester International Investors LLP **)	7,401,027	10.0
4 Swedbank Robur fonder	2,130,655	2.9
5 Ilmarinen Mutual Pension Insurance Co.	1,419,183	1.9
6 Elo Pension Co.	838,648	1.1
7 The State Pension fund	673,000	0.9
8 Folketrygdfondet	570,000	0.8
9 Danske funds	560,172	0.8
10 Svenska litteratursällskapet i Finland r.f.	541,345	0.7
Top 10 shareholders total	32,616,132	44.0
- of which nominee registered	20,598,366	27.8
Nominee registered other	25,073,277	33.8
Others	16,419,843	22.2
Total	74,109,252.00	100.00

Based on the ownership records of Euroclear Finland Oy and Euroclear Sweden AB.

*) Based on the ownership records of Euroclear Finland Oy, Cevian Capital's holding on 31 August 2016 was 11 066 684 shares, representing 14.9 % of the shares and voting rights.

***) On 23 June 2015, Silchester International Investors LLP announced that its holding in Tieto Corporation was 7 401 027 shares, which represents 10.0% of the shares and voting rights.

Ownership structure on 31 December 2016, % of shares



■ Corporations	12.8%
■ Finance and insurance institutions	3.5%
■ Public organizations	5.6%
■ Households	10.9%
■ Non-profit organizations	3.9%
■ Foreign	0.2%
■ Nominee registered	63.1%

Number of shares	Shareholders		Shares	
	No	%	No	%
1 - 100	5 901	36.5	337 544	0.5
101 - 500	6 540	40.4	1 723 675	2.3
501 - 1 000	1 842	11.4	1 418 945	1.9
1 001 - 5 000	1 580	9.8	3 405 237	4.6
5 001 - 10 000	162	1.0	1 148 563	1.5
10 001 - 50 000	99	0.6	2 223 579	3.0
50 001 - 100 000	24	0.1	1 744 541	2.4
100 001 - 500 000	26	0.2	5 478 877	7.4
500 001 -	9	0.1	56 617 731	76.4

Changes in share capital (1 share = 1 vote)

	Shares	Share capital, EUR
Total on 31 December 2006	75 841 462	75 841 462
Nullifying of the company's own shares, registered in 2007	1 883 350	0
Bonds with options subscribed, registered in 2007	61	61
Nullifying of the company's own shares, registered in 2008	1 935 000	0
Total on 31 December 2011	72 023 173	75 841 523
Subscriptions with stock options, registered in 2012	354 040	110 651
Total on 31 December 2012	72 377 213	75 952 174
Subscriptions with stock options, registered in 2013	755 154	603 238
Total on 31 December 2013	73 132 367	76 555 412
Subscriptions with stock options, registered in 2014	543 536	0
Total on 31 December 2014	73 675 903	76 555 412
Subscriptions with stock options, registered in 2015	334 050	0
Total on 31 December 2015	74 009 953	76 555 412
Subscriptions with stock options, registered in 2016	99 299	0
Total on 31 December 2016	74 109 252	76 555 412

Trading codes

NASDAQ OMX Helsinki	TIEV
NASDAQ OMX Stockholm	TIEN
Thomson Reuters, Helsinki	TIE1V.HE
Thomson Reuters, Stockholm	TIEN.ST
Bloomberg, Helsinki	TIE1V FH
Bloomberg, Stockholm	TIEN SS
ISIN Code	FI0009000277

Proposal of the Board of Directors

Distributable funds in the parent company	582 357 788.71
of which net profit for the current year	49 407 498.64

The Board of Directors proposes that the distributable funds mentioned above be used as follows:

- a total dividend of EUR 1.37 per share to be paid to shareholders	101 000 681.25
EUR 1.15 (ordinary)	
EUR 0.22 (additional)	
- the remainder be carried forward	481 357 107.46

In the opinion of the Board of Directors the proposed dividend distribution does not endanger the solvency of the company.

Espoo, 1 February 2017

Markku Pohjola
Chairman

Kurt Jofs
Deputy chairman

Harri-Pekka Kaukonen

Johanna Lamminen

Sari Pajari

Endre Rangnes

Jonas Synnergren

Lars Wollung

Esa Koskinen

Anders Palklint

Kimmo Alkio
President and CEO

Information for shareholders

SHAREHOLDER CALENDAR 2017

- Record date for the AGM 13 March
- Registration period 2 February–20 March 3.00 pm EET
- Annual General Meeting 23 March
- Ex-dividend date 24 March
- Record date for dividend payment 27 March
- Payment of the dividend as from 6 April

- Interim report 1/2017 27 April
- Interim report 2/2017 21 July
- Interim report 3/2017 24 October

ANNUAL GENERAL MEETING

The Annual General Meeting of Tieto Corporation will be held on Tuesday 23 March 2017 at 4.00 pm (Finnish time) at the Clarion hotel, address: Tyynenmerenkatu 2, Helsinki.

Documents of the AGM

The documents of the AGM are available on the company's website at www.tieto.com/agm.

The right to participate and registration

Each shareholder registered on 13 March 2017 in the shareholders' register of the company, has the right to participate in the AGM. A shareholder, whose shares are registered on his/her Finnish book-entry account, is registered in the shareholders' register of the company.

A shareholder, who wishes to participate in the AGM, may register for the meeting by giving a prior notice of participation no later than 20 March 2017 by 3.00 pm (EET) by which time the registration needs to arrive in the company. Such notice can be given:

- through Tieto's website at www.tieto.com/agm
- by e-mail [agm\(at\)tieto.com](mailto:agm(at)tieto.com)
- by phone +358 20 727 1740 (Mon–Fri 9.00 am–3.00 pm (EET))
- by telefax +358 20 602 0232
- by mail to Tieto, Legal/AGM, P.O. Box 2, FI-02101 Espoo, Finland

Holders of nominee registered shares

A holder of nominee registered shares is advised

without delay to request from his/hers custodian bank necessary instructions regarding the registration in the temporary shareholders' register of the company, the issuing of proxy documents and registration for the AGM. The account management organization of the custodian bank will register a holder of nominee registered shares, who wants to participate in the AGM, into the temporary shareholders' register of the company by 20 March 2017 by 10 am (EET) at the latest.

Possible proxies for representing a shareholder at the AGM shall arrive to Tieto on 20 March 2017 at the latest to the following address: Tieto, Legal/AGM, P.O. Box 2, FI-02101 Espoo, Finland (fax: +358 20 602 0232).

Shares registered in Euroclear Sweden AB

A shareholder with shares registered in Euroclear Sweden AB's Securities System who wishes to attend and vote at the AGM must be registered in the shareholders' register maintained by Euroclear Sweden AB not later than on 13 March 2017 and request temporary registration in the shareholders' register of Tieto Corporation maintained by Euroclear Finland Oy. Such request shall be submitted in writing to Euroclear Sweden AB no later than on 14 March 2017 at 15.00 Swedish time. Further information at www.tieto.com/agm.

This temporary registration made through written request to Euroclear Sweden AB is considered a notice of attendance at the general meeting.

Proxy representative and power of attorney

A shareholder may participate in the AGM and exercise his/her rights at the meeting by way of proxy representation. A proxy representative shall produce a dated proxy document or otherwise in a reliable manner demonstrate his/her right to represent the shareholder at the AGM. When a shareholder participates in the AGM by means of several proxy representatives representing the shareholder with shares at different securities accounts, the shares by which each proxy representative represents the shareholder shall be identified in connection with the registration for the AGM.

Possible proxy documents should be delivered in originals to Tieto, Legal/AGM, P.O. Box 2, FI-02101 Espoo, Finland before 20 March 2017.

Dividend payment

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.15 per share and an additional dividend of EUR 0.22 be paid from the distributable assets for the financial year that ended on 31 December 2016. The dividend shall be paid to shareholders who on the record date for the dividend payment on 27 March 2017 are recorded in the shareholders' register held by Euroclear Finland Oy or the register of Euroclear

Sweden AB. The dividend shall be paid as from 6 April 2017.

Further information on the AGM at www.tieto.com/agm

Auditor's report (Translation from the Finnish Original)

To the Annual General Meeting of Tieto Oyj

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion,

- the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

What we have audited

We have audited the financial statements of Tieto Oyj (business identity code 0101138-5) for the year ended 31 December, 2016. The financial statements comprise:

- the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements; and
- the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

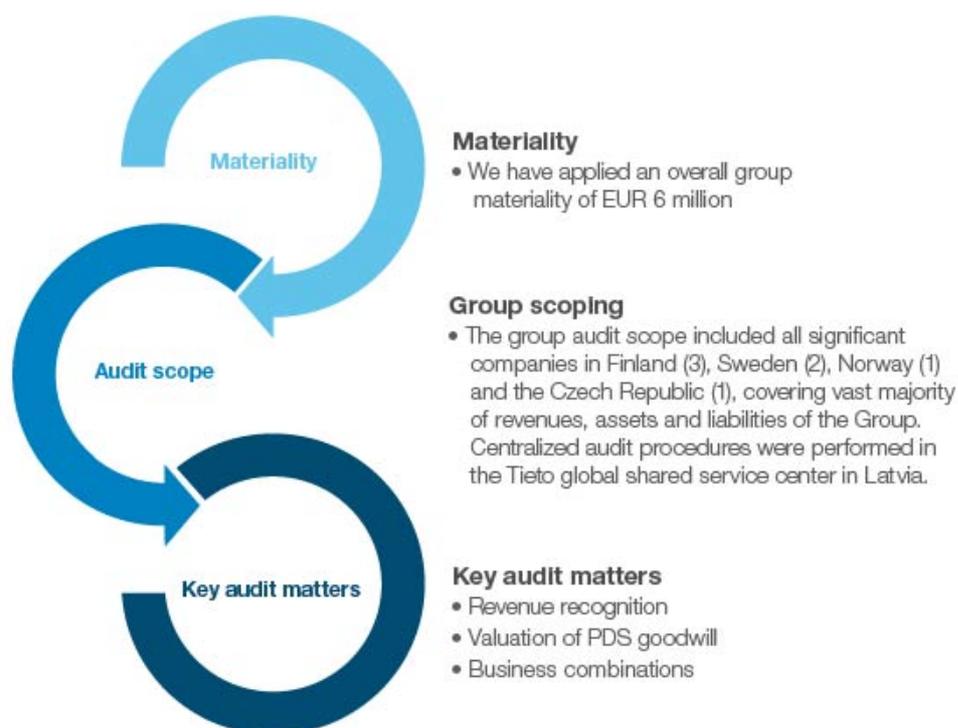
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Finland, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	EUR 6 million
How we determined it	5% of profit before taxes
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and it is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We tailored the scope of our audit, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates. The group audit scope was tailored to take into account the structure of the Group and the size, complexity and risk of individual subsidiaries. Using this criteria we selected companies and accounts into our audit scope and at the same time ensured that we get sufficient coverage to our audit, in order to issue an audit opinion for the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter**How our audit addressed the Key audit matter****Revenue recognition**

Refer to accounting policies for the consolidated financial statements and note 2.

We identified two specific risks of error and fraud in respect of improper revenue recognition given the nature of the Group's products and services, as follows:

- Inappropriate revenue cut-off in products and services sales;
- Inappropriate accounting for major projects, which due to their size and complexity require specific attention both from the accounting and the auditing perspective. These projects are usually long-term and meet the definition of a construction contract (IAS11).

We evaluated the IT systems used in the determination of revenue recognition by testing access and change management controls. We also evaluated process level controls by performing

walkthroughs of each significant class of revenue transactions, assessed the design effectiveness of key controls and tested the operating effectiveness of those controls; Our substantive audit procedures to address the identified risk relating to revenue cut-off in products and services sales consisted the following:

- Testing individual transactions occurring within proximity of the financial year-end; and
- Performing transactional testing procedures to validate the recognition of revenue throughout the year as well as year-end.

Our substantive audit procedures to address the risk of inappropriate accounting for major projects were focused around judgements used by management in creating project estimates. We selected a sample of contracts and performed the following:

- Ensured that the revenue recognition method applied was appropriate based on the terms of the arrangement;
- Agreed project revenue estimate against the sales agreement, including contract amendments;
- Tested the accuracy of the cost estimate by taking a sample of cost components and traced those to supporting documentation; and
- Recalculated the revenue based on stage of completion of the project. Assessed the appropriateness of the stage of completion by comparing actual costs per the company's accounting records to the estimated total costs of the project.

Valuation of PDS goodwill

Refer to accounting policies for the consolidated financial statements and notes 14 and 30.

We focused on this area due to the sensitivity for impairment of the PDS goodwill, which amounts to EUR 59.8 million. The determination of whether an impairment charge is required involves significant management judgement, including estimating the future performance of the business and the discount rate applied to these future cash flows.

Our audit focused on assessing the appropriateness of management's judgments and estimates used in the goodwill impairment analysis through the following procedures:

- We tested the methodology applied in the Value In Use calculation as compared to the requirements of IAS 36, Impairment of Assets, and the mathematical accuracy of management's model;
- We evaluated the process by which the future cash flow forecasts were drawn up, including comparing them to the latest Board approved budgets and long term plans;
- We tested the key underlying assumptions for the cash flow forecasts, including sales and profitability forecasts, discount rate used and the implied growth rates beyond the forecasted period;
- We compared the current year actual results included in the prior year impairment model to consider whether forecasts included assumptions that, with hindsight, had been optimistic;
- We considered whether the sensitivity analysis performed by the management around key assumptions of the cash flow forecast was appropriate by considering the likelihood of the movements of these key assumptions; and
- We assessed the appropriateness of the discount rates and long term growth rates applied within the model, including comparison to economic and industry forecasts as appropriate. We considered the appropriateness of the related disclosures provided in notes 14 and 30 in the Group financial statements.

Business combinations

Refer to accounting policies for the consolidated financial statements and note 29.

During 2016 Tieto acquired the Swedish company Emric Partners AB for a total consideration of EUR 37.7 million. The acquisition is accounted for as a business combination (IFRS 3) and includes a number of significant and complex judgments in the determination of the fair value of the assets and liabilities acquired.

The primary element of the valuation and purchase price allocation exercise was to assess the fair value of intangible assets (EUR 14.5 million) in the form of technology, customer relationships. Resulting goodwill amounted to EUR 26.2 million. The allocation also considered other assets and liabilities.

For the intangible assets, we assessed the methodology adopted by management for calculating the fair value of technology and customer relationship assets. We also audited the key assumptions in the valuation model, particularly in respect of the:

- cash flow forecasts used in the valuation process;
- royalty rates assumed for the technology;
- assumed useful lives of the technology and customer relationships; and
- discount rate applicable to the transaction.

We considered the appropriateness of the related disclosures provided in note 29 in the Group financial statements.

There are no key audit matters related to the parent company financial statements that should be communicated in our auditor's report.

Responsibilities of the Board of Directors and the Managing Director for the financial statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a

material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors our responsibility also includes considering whether the report of Board of Directors has been prepared in accordance with the applicable legal requirements.

In our opinion,

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable legal requirements.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 1 February 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Tomi Hyryläinen
Authorised Public Accountant

Tieto's online Annual Report is available at
www.tieto.com/ar2016

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