



tieto



2017

Annual Report

WE AIM TO BE OUR CUSTOMERS' FIRST
CHOICE FOR BUSINESS RENEWAL

TABLE OF CONTENTS

Tieto in 2017

6	Key facts	14	Stakeholder dialogue
7	2017 highlights	15	Markets
9	CEO's statement	17	Strategic priorities
12	IT market drivers	19	Operating model
13	Market position	21	Creating value for life

Sustainability

23	Our approach to sustainability	50	Ethical culture
25	Corporate Responsibility 2020 plan	53	Sustainable IT
30	Materiality analysis	55	Sustainable supply chain
32	Managing Corporate Responsibility	57	Economic impact
35	Customer experience	60	Greenhouse gas emissions
38	Information security and data privacy	64	Societal engagements
40	Our people	66	About sustainability reporting
44	Employee experience	68	Independent assurance report
46	Equal opportunities	70	GRI content index table

Governance

73	Corporate Governance Statement	77	The Board of Directors
74	Annual General Meeting	82	The President and CEO and operative management
75	Shareholders' Nomination Board (SNB)	84	Internal control and risk management

86	Major risks	91	Remuneration Statement
89	Related-party transactions	98	Letter from the Chairman of the Remuneration Committee
89	Insider administration		
90	Auditors		

Financials

99	Report by the Board of Directors	138	Reported alternative performance measures
100	IT market development	139	Five-year key figures
103	Strategy implementation	140	Key figures by quarter
106	Financial performance	141	Calculation of key figures
111	Cash flow and financing	142	Consolidated financial statements
112	Investments and development	142	Income statement (IFRS)
112	Order backlog	144	Balance sheet (IFRS)
113	Major agreements	146	Statement of cash flow (IFRS)
117	Business transactions	147	Statement of changes in equity (IFRS)
118	Personnel	149	Notes to the consolidated financial statements (IFRS)
121	Non-financial information	149	Corporate information
125	Shareholders' Nomination Board	149	Corporate information
126	The Board of Directors	149	Basis of preparation and accounting principles for the consolidated financial statements
128	The President and CEO and operative management	149	Basis of preparation
130	Auditors	149	New and amended standards adopted by the Group
131	Shares	161	Performance for the year
135	Dividend	161	1. Segment Information
136	Near-term risks and uncertainties	165	2. Percentage of completion
137	Full-year outlook for 2018	165	3. Other operating income
137	Financial calendar 2018		

166	4. Other operating expenses	202	30. Acquisitions
166	5. Development costs	203	31. Impairment testing of goodwill
167	6. Financial income and expenses	204	Other information
167	7. Earnings per share	204	32. Commitments and contingencies
168	Employee benefits	204	33. Operating leases
168	8. Employee benefit expenses	205	34. Related party transactions
169	9. Management remuneration	205	35. Events after the balance sheet date
171	10. Stock options and share incentives	206	Parent company's financial statements
173	11. Pension plans	206	Income statement (FAS)
176	Income taxes	207	Balance sheet (FAS)
176	12. Income taxes	209	Statement of cash flows (FAS)
177	13. Deferred income tax	210	Notes to the parent company's financial statements (FAS)
179	Assets	210	Parent company accounting principles
179	14. Intangible assets	213	Notes 1-4
181	15. Property, plant and equipment	214	Notes 5-6
183	16. Available-for-sale financial assets	215	Note 7
184	17. Trade and other receivables	216	Note 8
184	18. Cash and cash equivalents	217	Note 9
185	Equity and liabilities	218	Notes 10-12
185	19. Issued capital and reserves	219	Note 13
185	20. Interest-bearing loans and borrowings	220	Notes 14-16
186	21. Reconciliation of liabilities arising from financing activities	221	Notes 17-18
187	22. Provisions	222	Note 19
188	23. Finance leases	223	Note 20
189	24. Trade and other payables	224	Note 21
190	Financial instruments - Fair values and risk management	225	Dividend proposal, signatures for the Board of Directors' report and financial statements and Auditor's note
190	25. Management of financial risks	226	Shares and shareholders
195	26. Carrying amounts and fair values of financial assets and financial liabilities	231	Information for shareholders
197	27. Derivatives		
198	Group structure and goodwill		
198	28. Subsidiary shares		
200	29. Interest in joint ventures		

233 **Auditor's report (Translation of the
Finnish Original)**

This is Tieto

Tieto aims to become customers' first choice for business renewal as the leading Nordic software and services company.

In a rapidly changing world, every bit of information can be used to provide new value. Tieto aims to capture the significant opportunities of the data-driven world and turn them into lifelong value for people, business and society.

Having a strong role in the ecosystems, we use our software and service capabilities to create tools and services that simplify everyday life for millions of people; to help our customers renew their businesses by capturing the opportunities of modernization, digitalization and innovation and to foster new opportunities based on openness, co-innovation and ecosystems.

Building on a strong Nordic heritage, Tieto combines global capabilities with local presence. Headquartered in Espoo, Finland, Tieto employs over 14 000 experts in close to 20 countries. Tieto's annual turnover is approximately €1.5 billion and shares are listed on NASDAQ in Helsinki and Stockholm.

FACTS AND FIGURES (END OF DEC 2017)

Full name: Tieto Corporation

Company founded in 1968

Headquarters in Espoo, Finland

Number of employees: 14 329¹, 15 032²

Number of operating countries: 19

Listed on NASDAQ OMX in Helsinki and Stockholm

Net Sales: 1 543.2 MEUR

Total capitalization of equity: EUR 475.6 million

Total capitalization of liabilities: EUR 672.4 million

¹) FTE

²) Headcount

2017 highlights

Highlights in 2017 across strategic choices

Q1/2017

- Tieto signs outsourcing agreement with insurance company Folksam in Sweden. This further strengthens Tieto's position in the Swedish market and adds valuable expertise in application management and consulting services.
- Tieto's new Data-Driven Businesses unit aims to bring artificial intelligence to healthcare. Tieto's aim in the health and wellbeing sector is to drive personalized but efficient data-driven models by maximizing the wellbeing of individuals while reducing the costs of public social and healthcare services.
- Tieto introduces a new Forest Hub ecosystem platform that helps wood supply business partners in their operational data transfer regarding wood logistics and mill reception processes.
- To enhance organizations' capability to quickly develop and deliver new high-quality services, Tieto launches Tieto DevOps Space. This new service is an important part of a suite of DevOps solutions and capabilities Tieto is developing.

Q2/2017

- Tieto and Swedish digital security company Verisec enter into an agreement to collaborate on e-identification for the public sector.
- Tieto unveils Insurance-in-a-Box, a digital start-up platform, enabling insurers to launch new products in less than two months.
- Tieto and the City of Espoo test artificial intelligence to boost value-based social and healthcare services.
- Tieto delivers welfare technology to Nacka municipality. The aim is to solve problems for individuals living at home through solutions such as digital supervision, positioning alarms and cognitive aids that remind people to take their medications at the right time.
- Tieto and Metsä Group are digitalizing the forestry ecosystem with help of artificial intelligence, drones and virtual reality.

Q3/2017

- Tieto implements a new pension payment system for two large Finnish pension providers, Keva and Varma.
- Tieto's intelligent head office receives leading certificate for sustainability, the first LEED platinum certificate for an existing building in Finland.
- Tieto announces that it is accelerating the use of green energy in all its data centres across the Nordics. The goal is to reduce energy consumption related CO2 emissions by 50 percent by 2020.

Q4/2017

- Based on a recommended public offer, Tieto acquires Avega, a Swedish consulting company. The acquisition accelerates Tieto's growth businesses and strengthens its footprint in the Swedish consulting-led market.
- Tieto enters into an agreement with the City of Stockholm to provide next-generation IT services for the city's administration and municipal owned companies.
- Tieto launches a new artificial intelligence solution for the healthcare and welfare sector.
- Tieto establishes a blockchain pilot programme in the Nordics – and introduces a global identity network for secure digital interactions.

CEO's statement

ACCELERATING VALUE TO ALL STAKEHOLDERS

In today's data-driven world, demand for new innovations and fast technology adoption increases. Tieto seeks a pivotal role in this change and aims to become the trusted partner and customers' first choice for their business renewal.



It was delightful to witness the strong progress achieved on Tieto's long term agenda during 2017; we were able to make major improvements in *customer experience*, continued positive development in *employee engagement* and motivation and continued to deliver strong *financial results* with good cash flow and profitability development enabling continued attractive dividend payout.

We are also proud about Tieto's nomination to Thomson Reuters Top 100 Global Tech Leaders list, including altogether 14 European and 3 Nordic companies. This nomination is a recognition of our 14 000 employees' commitment to drive innovation, performance and social responsibility.

From this strong foundation, we step into 2018 with great excitement; as Tieto, we have been shaping the future of the Nordic enterprises and society already for 50 years. While celebrating our 50th anniversary and embracing the history, we are inspired by the market momentum and the data-rich world providing ample opportunities to support the multifaceted development of societies.

TOWARDS GREATER CUSTOMER EXPERIENCES

Customer value and experience are indisputably amongst key success metrics for the daily work of the global team of over 14 000 Tieto employees. Every interaction counts in creating a seamless good experience for our customers. As part of our company renewal, we have during the past years also concentrated on setting up mechanisms and processes to keep constantly up to date with our customers' sentiments. This includes feeding the insights from our customers back to the organization to foster understanding and ambitions for continuous improvement.

In 2017, we witnessed a significant improvement in our strategic customer experience (CX) survey results, with Net Promoter Score reaching all-time high. It is rewarding to see our multi-year consistent attention and work on company renewal and culture starting to pay off.

Our ambition is to turn customer experience into a competitive differentiator. This can only happen through sincere commitment from the entire Tieto team: our promises to customers need to be fulfilled in every interaction, seamlessly through all touchpoints, every single day. This requires us to treasure a corporate culture where both employee and customer experience are equally valued and their undisputable correlation recognized.

EMPLOYEE EXPERIENCE – A CORE ELEMENT OF SUCCESS

We recognize employee experience as a core element of our success. Our Open Source Culture strives to enhance employee experience and engagement, and to further support this, we also focus on continuously enhancing our digital tools and invest in modern working environments. In 2017 our overall employee engagement score improved, continuing the positive trend since 2014.

In today's rapidly changing world, the required skills and competences are evolving fast. As digitalization is turning practically all companies into tech-companies, competition over talent is intensifying. Through recruitments in new service areas, competence development, active co-innovation with customers and partners and consistent attention on employee wellbeing, Tieto aims to master the competition.

During 2017, we welcomed around 2 300 new colleagues to Tieto through recruitment. In addition, through acquisition of Avega in Sweden, around 350 experts joined us in December, to enhance our approach towards consulting-led markets.

We actively encourage our employees to embrace a 'Learning as a Lifestyle' mindset with initiatives and tools enabling everyone to keep up with the new demands and acquire new knowledge and skills. Knowledge sharing is also accelerated through active, cross-functional teamwork, and we continue on this path in 2018.

INVESTING IN INNOVATION AND GROWTH

Tieto actively drives innovation, especially around data-intensive services and technologies, such as artificial intelligence, to accelerate growth across markets and customer segments.

In 2017, we maintained our annual investment level at above EUR 100 million to accelerate innovation through new services and technologies. The company also continued to invest in standardization and automation to drive further improvements in productivity and quality.

During the past two years we have increased investments mainly in our data-driven businesses and selected industry solutions and growth services. The selected industry solutions include: Lifecare in Healthcare and Welfare; Case Management for the Public sector and Banking and Payments solutions in Financial Services. Selected growth services comprise Cloud services, Customer Experience Management and Security Services.

Over the recent years we have continued to seek growth and competitiveness also through M & A, with altogether six acquisitions made since 2013. The latest addition to Tieto family is Avega, a Swedish consulting company, joining us in December 2017. With the active acquisition agenda we further accelerate our software businesses and consulting capabilities, aligned with our strategic ambition to be the first choice for business renewal for our customers.

SUSTAINABILITY AND RESPONSIBILITY IN FOCUS

The importance of sustainability and responsibility accelerates as stakeholders are increasingly interested in building sustainable value chains across businesses and markets. Tieto's core corporate responsibility objectives are to be an ethical forerunner, minimize environmental impact and create value for all stakeholders.

Digital solutions contribute to reaching the United Nations Sustainable Development Goals. Tieto has explored the environmental impacts of IT since 2010 by calculating the estimated CO₂ emission reductions our digital transaction services can bring to our customers when replacing manual processes. In 2017, these reductions amounted to around 75 kilotons CO₂ for these type of services, which is approximately three times as much as Tieto's reported CO₂ emissions.

In 2017, our indirect energy consumption decreased by 4%, and related CO₂ emissions decreased by 44% thanks to shifting our Nordic data centers totally to renewable electricity. Our reported CO₂ emissions during the full-year decreased by 34%.

Our ambition is to become an ethical forerunner in societies we operate. Equal opportunities, diversity and inclusive culture represent the values we are committed to and still need to enforce in our operations. At Tieto, we have zero tolerance towards any unethical behaviour. During 2017, 88% of our employees completed the annual Code of Conduct and Anti-corruption e-learning. The Supplier Code of Conduct Rule coverage represents today 86% of our total spend among regular

suppliers. We continue to address business ethics as a key topic throughout the value chain also in 2018.

Tieto has been a signatory of the United Nations Global Compact (UNGC) principles for human and labour rights, anti-corruption and environment, since 2010, and is committed to continue supporting the UNGC. In 2017, we renewed our CR plan based on stakeholder dialogue and now have the Corporate Responsibility 2020 plan to cover our current strategy period.

DATA-DRIVEN OPPORTUNITIES FUEL POSITIVE MARKET MOMENTUM

Data is the raw material of digitalization, enabling companies across industries enhance their innovation capabilities and competitiveness. As opportunities of the data-driven world are being discovered at an increasing intensity and pace, we witness the birth of game-changing innovations, new business models as well as merger of industries, segments and businesses.

In this environment, emerging services based on new technologies such as cloud, software robotics, artificial intelligence and blockchain are expected to increase and accelerate innovation. The appetite for digital investment is on a healthy level and companies able to provide related services and consultancy in demand. Tieto also seeks to play a bigger role in our customers' business renewal through our growth and innovation agenda.

In 2017, the overall IT services market grew by around 2% in the Nordic countries and the growth is expected to continue on similar level in 2018. Sweden continues to be the fastest-growing of Tieto's core markets. In Finland, the economic outlook has improved, and this will gradually also support the IT services market. The global market for product development services is positively dynamic, driven by development of 5G network demand and connectivity needs for smart traffic.

SUCCESS THROUGH TEAMWORK

The data-driven world sets demand for high-paced change, and offers great opportunities for innovation and growth. In this environment, we strongly believe in openness and co-innovation, and will continue to enhance this with our customers and partners, as well as internally building on our Open Source Culture.

I would like to warmly thank our customers, employees, partners and shareholders for making 2017 another year of inspiration and progress, and I look forward to continuing our dialogue and joint success in 2018.

Kimmo Alkio
President and CEO

IT market drivers

- Digitalization of our **customers' business** is accelerating in support of a twofold agenda
 - **growing revenue** through innovation
 - **reducing costs** by improved efficiency.
- A **new generation of digital platforms** is being built – and at the same time, existing legacy systems are being modernized.
- Customers are investing in new technologies, such as analytics, to expand their existing product and service portfolios and **improve user experience**.
- 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.
- **Emerging services** based on new technologies such as the cloud, software robotics, artificial intelligence and blockchain are expected to experience **double-digit growth** and the **decline in traditional services** will continue.
- 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 their operations. For example, IT solutions will continue to **reduce CO₂ emissions** through reduced 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 interfaces) and open data make collaborative innovation possible.

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

Market position

MARKET POSITION IN IT SERVICES

- The size of the IT services market comprising Finland, Sweden and Norway is ~ EUR 14 billion (IDC 2017)
- The leading market position in IT services in Finland
- Among the top 3 vendors in Sweden
- Among the top 6 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 in solutions that best serve our clients in their business renewal.

Our major competitors include both international IT service providers, smaller niche players and geographically focused companies. Most competitors provide a wide range of consulting, systems integration and managed services. In industry solutions, there are multiple competitors.

Our major competitors are:

- international IT service providers, such as Accenture, Atos, CapGemini, DXC Technology, IBM, and CGI

- Indian players – HCL, Infosys, Tata Consultancy Services and Wipro and Cognizant,
- as well as smaller geographically focused companies, such as EVRY.

Most competitors provide a wide range of both project services and continuous services.

PRODUCT DEVELOPMENT SERVICES MARKET

Tieto provides R&D software engineering services globally for the telecom, semiconductor and consumer IoT sectors, and is expanding to new sectors, such as the automotive sector. Tieto is well recognized through its strong competencies in cutting edge technologies and software development methods as well as the capability to deliver complete software solutions with full responsibility. 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, such as TCS, Wipro and Altran.

Nordic IT services market*



- Project services 36%
- IT outsourcing services 51%
- Support and deploy services 13%

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

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.

Tieto conducts regular stakeholder analyses to get a deeper understanding of its key stakeholder groups. Among the prioritized stakeholders are employees, customers, investors and suppliers. Stakeholder relations are managed throughout the organization, except for investor relations, which is centralized within the Group support functions. Similarly, supplier relations are mainly handled by Tieto’s Procurement team.

Tieto’s corporate responsibility 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 Corporate Responsibility 2020 plan.

Other types of dialogues, such as annual surveys with customers and employees, also take place to learn more about stakeholders’ specific experiences of Tieto and the collaboration with us. 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, focusing on accelerating innovation and growth, has also generated interest among stakeholders in 2017.

Our aim is to meet stakeholders’ corporate responsibility (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 to raise awareness on CR and sustainability as a whole.

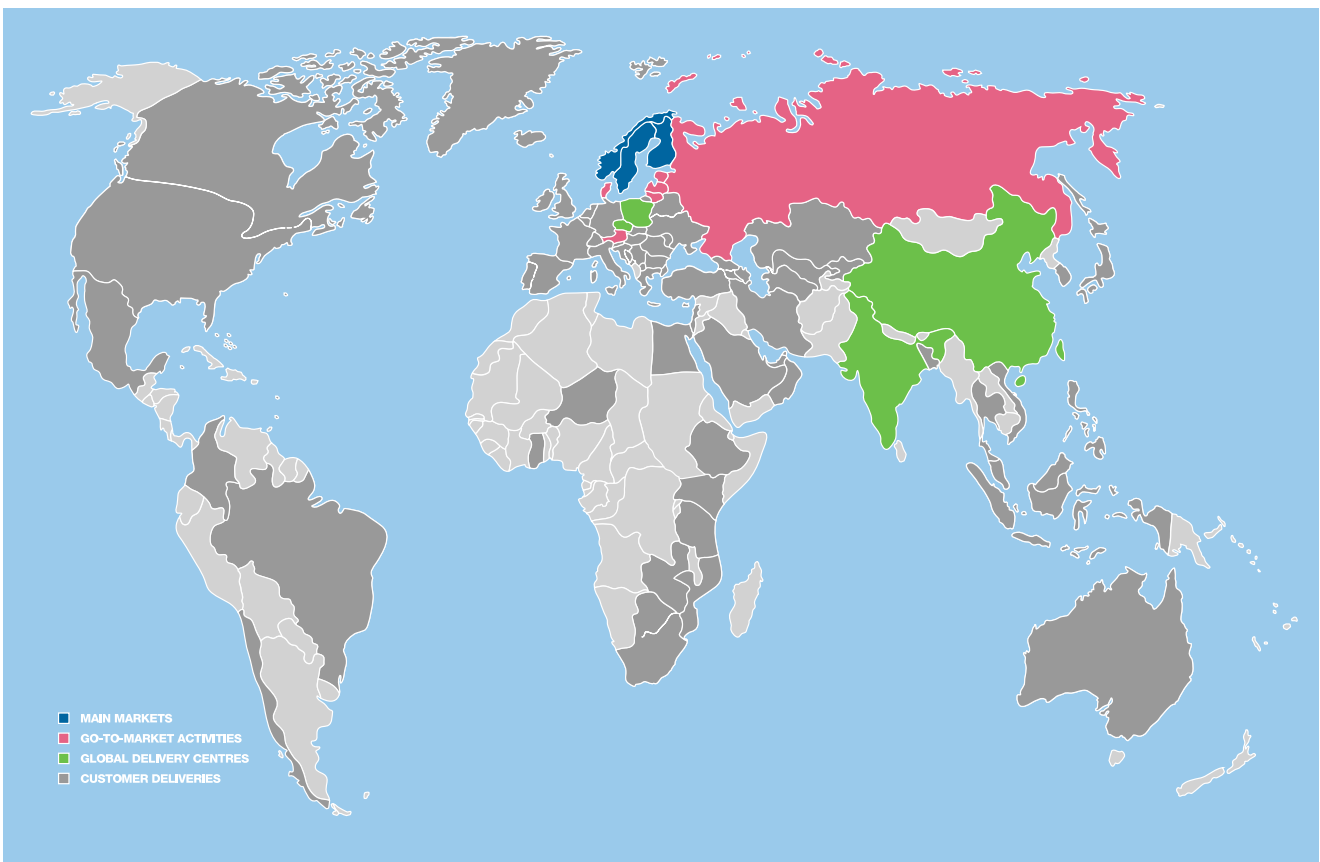
The table below presents Tieto’s main stakeholders and our engagements in 2017.

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 • Various learning platforms • 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 • CR materiality analysis (MA) 	<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 • Formal (MA) every 2-3 years, annual updates 	<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 • Build on Open Source Culture to enhance employee engagement, develop digital tools and modern work environments • Simplifying business processes and life in matrix

	<ul style="list-style-type: none"> Information security, anti-corruption, employee wellbeing, diversity, GHG emissions 			<ul style="list-style-type: none"> Workday, a tool to simplify employee processes, implemented New CR 2020 plan with agreed priorities
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 Information security, anti-corruption, employee wellbeing, diversity, GHG emissions 	<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 practices Materiality analyses CR materiality analysis (MA) 	<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 Formal (MA) every 2-3 years, annual updates 	<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 Boosting employee engagement New CR 2020 plan with agreed priorities
Investors and shareholders	<ul style="list-style-type: none"> Execution of strategy highlighting innovation and growth Investments in offerings driving future growth Continued attractive dividend yield 	<ul style="list-style-type: none"> Investor meetings and group presentations Conference calls 	<ul style="list-style-type: none"> IR participated in close to 100 investor meetings and group presentations during 2017 	<ul style="list-style-type: none"> Investments driving renewal of services and solutions remained at EUR 75 million – targeted especially at industry-specific software Acquisition of Avega to strengthen foothold in Sweden 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 Information security, anti-corruption, employee wellbeing, diversity, GHG emissions 	<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 CR materiality analysis (MA) 	<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 Formal (MA) every 2-3 years, annual updates 	<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) New CR 2020 plan with agreed priorities
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 Information security, anti-corruption, employee wellbeing, diversity, GHG emissions 	<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 CR materiality analysis (MA) 	<ul style="list-style-type: none"> Bi-annual, quarterly and on continuous basis Formal (MA) every 2-3 years, annual updates 	<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 New CR 2020 plan with agreed priorities
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 19 countries, with the Nordics – Finland, Sweden and Norway – as our main market. The size of this Nordic IT services market was ~ EUR 14 billion in 2017 (IDC).



<p>FINLAND</p> <ul style="list-style-type: none"> • Tieto's core market • Sales EUR 676 million • Personnel 3 364 • Market position: #1 	<p>SWEDEN</p> <ul style="list-style-type: none"> • Tieto's core market • Sales EUR 599 million • Personnel 3 036 • Market position: Among top 3 	<p>NORWAY</p> <ul style="list-style-type: none"> • Tieto's core market • Sales EUR 161 million • Personnel 600 • Market position: Among top 6
<p>GO-TO-MARKET ACTIVITIES</p> <p>Austria, Denmark, 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>

Strategic priorities

Tieto’s vision of data being the biggest driver of value creation for individuals, societies and economies provides significant opportunities for Tieto and its customers alike. Tieto’s strategic ambition to become customers’ first choice in their business renewal provides a solid foundation for innovation and growth. During 2017, we observed an increased intensity of duality, ie. the two-fold agenda where organizations seek higher efficiencies in current operations, while simultaneously incubating new business models.

Tieto strategy 2016–2020

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

Services to accelerate customer value

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

Nordic leadership and international expansion

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

Openness and co-innovation

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

Business choices building on our strengths

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

In 2017, Tieto progressed across all of the three core strategic choices.

1. Services to accelerate customer value

- Increased investments into industry solutions to accelerate the software product roadmaps especially in Lifecare and Payments area. Overall healthy growth of 5%, above market.
- Continued investments and progress made with data-driven businesses, with good innovation pipeline and promising use cases in healthcare and employee experience at workplace. [Tieto Empathic Building](#) solution launched to improve experience and collaboration of employees and customers.
- Industrialization of Technology Services and Modernization continued during the year, resulting in solid growth in application services while price erosion continued in customized infrastructure services. Competitiveness of Tieto cloud services continued with growth in line with the market. There is strong interest in shifting from current service environments to Tieto's OneCloud solution launched in early 2017. Tieto continues to invest in multi-cloud services.
- Expansion of Product Development Services continued, with new customers across automotive and consumer devices. Solid performance from the business both from growth and profitability perspectives.

2. Nordic leadership and international expansion

- Tieto achieved solid growth in Sweden during the year, and consistent growth above market average in all Nordic countries. Overall, significant opportunities are recognized in the consulting-led market. Distinct actions were undertaken to drive the Nordic market share, such as acquisition of Avega, to drive growth in consulting services in Sweden. Tieto is well positioned to continue growth faster than the market in all Nordic markets.
- Good progress with international expansion based on selective software products in Transaction banking and Oil & Gas businesses.

3. Openness and co-innovation in the core of our culture

- Multiple co-innovation initiatives including hackathons with customers ongoing
- Expanding the co-creation ecosystem, with for example ForestHub, participation in Connected Industry, One Sea – Autonomous Maritime Ecosystem etc.

In 2018, we continue to support our customers in their two-fold agenda; the need to drive efficiency and new business innovation in parallel. We help our customers' renewal through our consultative capabilities and proven end-to-end industry solutions. We will continue driving scale and industrialization of our outsourcing services. Through long-term commitment on employee experience and continued investments into software and services, Tieto intends to proceed towards our ambition to become "Customer's first choice for business renewal".

Read more about [Tieto's highlights from 2017](#).

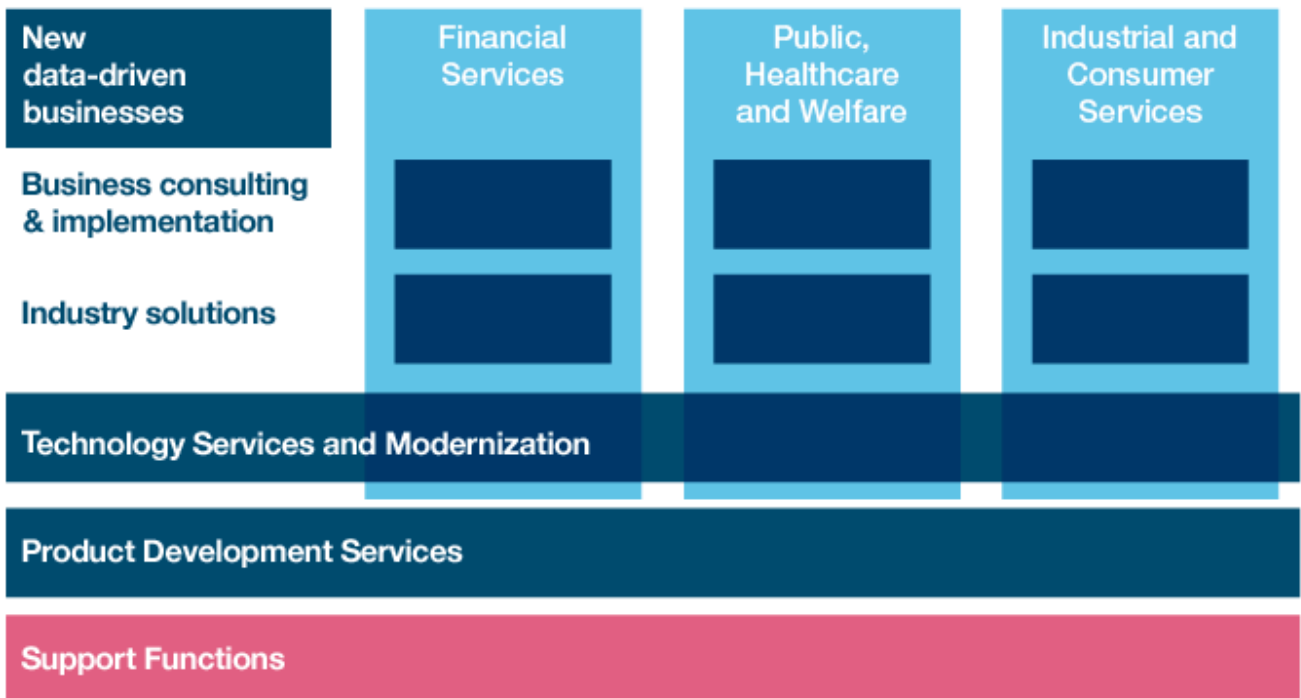
Operating model

Tieto realigned its structure and operating model to ensure the successful implementation of its renewed strategy 2016–2020, with the aim of becoming customers' first choice for business renewal.

The core structure, operational from 1 July 2016, comprises of 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 as well as 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:

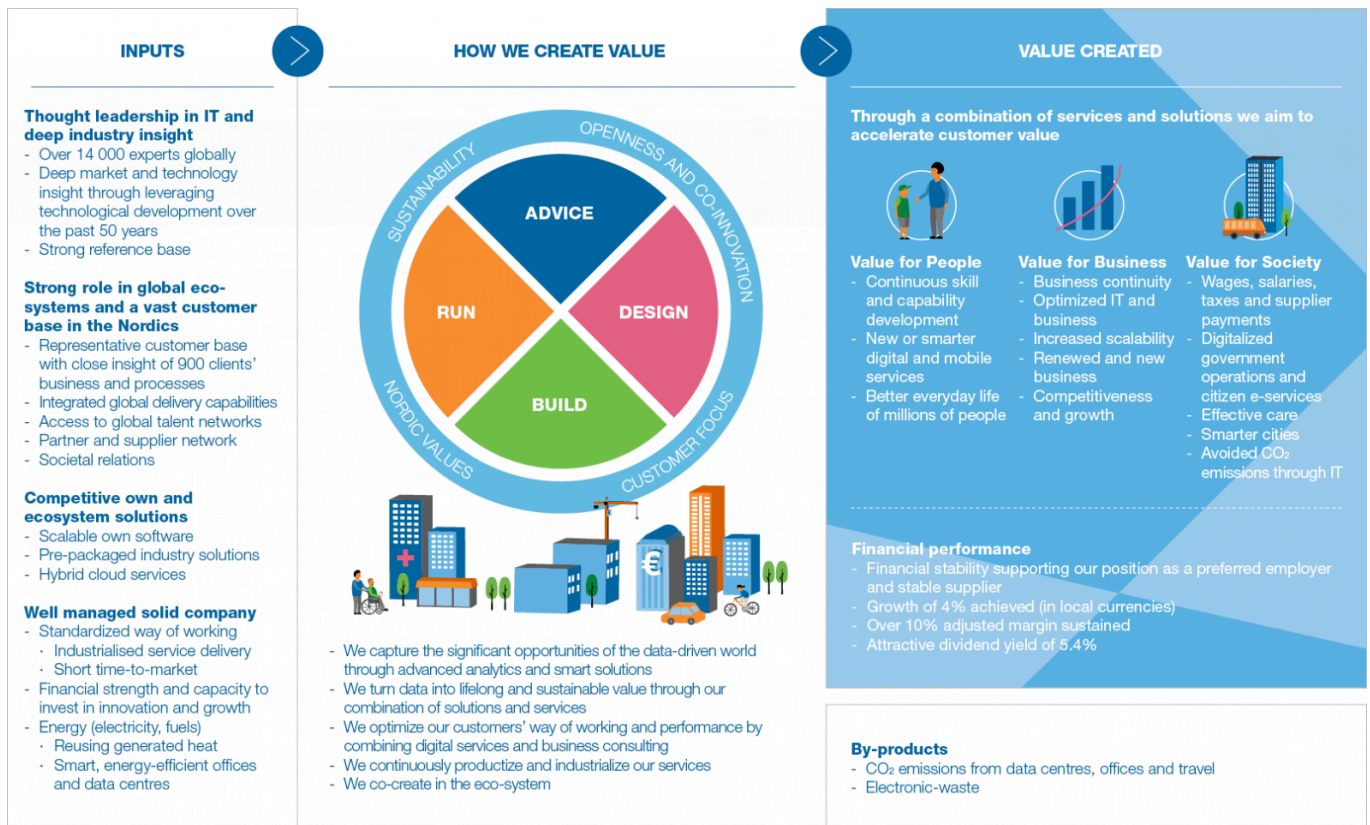
1. **Business Consulting and Implementation:** Business advisory and related implementation services to customers enabling their business renewal. These consulting and implementation services are highly industry specific and hence are organized in each industry forming a virtual service line at Tieto.
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 digitalization 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. This Annual Report aims to provide an overall picture of Tieto's ability to create this value. The value creation chart below has been prepared by making use of the International Framework for integrated reporting.



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 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 a full portfolio. This enables our customers to focus on their core business and create value in their respective domains.

Through 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

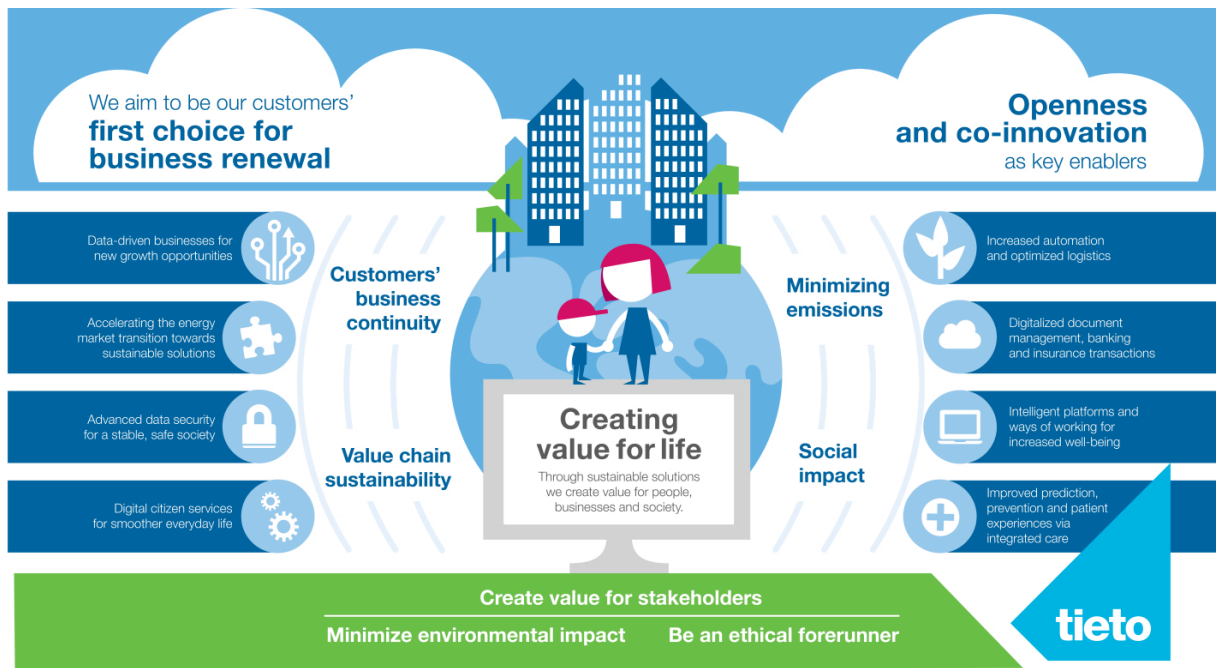
significant opportunities of the data-driven world and turn them into lifelong and sustainable value for people, business and society:

- Through smart technology, digital and mobile services, Tieto enables a 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 society as whole.

In addition, Tieto is committed to creating shareholder value for its owners. As an employer and taxpayer, Tieto also plays a significant role in society.

Sustainability

Our approach to sustainability



We believe that sustainability is more than just a trend. It is our responsibility.

Tieto is convinced that through digitalization solutions to the biggest challenges of our time can be found. The long-term success of the company requires a business model that takes into account corporate responsibility (CR) and sustainability as natural parts of daily business operations.

As a company and corporate citizen, 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 the company in its daily work.

Tieto,

- has been a signatory of the UN Global Compact principles for environmental care, human rights, worker's rights and anticorruption since 2010
- complies with the OECD Guidelines for Multinational Enterprises
- publishes every year externally assured corporate responsibility information in accordance with the GRI Standards
- is publishing for the first time non-financial information (NFI) in accordance with the Finnish Accounting Act in the report from the [Board of Directors](#)

As part of its corporate purpose – Creating value for life – Tieto’s aim is to play an active role in sustainable development for people, businesses and society at large.

Tieto is

- a member of the FIBS non-profit corporate responsibility network in Finland
- a member of the NMC network in Sweden
- a member of the United Nations Nordic Network.
- a member of Climate Partnership network of City of Helsinki

As a result of its sustainability performance, Tieto is included in the OMX GES Sustainability Finland Index. Tieto was also included in CDP’s Climate Change report 2017 receiving scoring level A-, the highest of four levels.

In addition, [Ecovadis](#), operating a collaborative platform providing supplier sustainability ratings for global supply chains, published a CSR risk and performance index in September 2017 with global results for Environment, Labour practices & Human rights, Fair business ethics and Sustainable procurement areas. While the global scoring average for ICT companies was around 45 according to the index, Tieto received 66 points and a gold level recognition.

Corporate Responsibility 2020 plan

For Tieto, sustainability is both a responsibility and possibility. We deliver solutions that help our customers renew their business as well as create economical, societal and environmental value. To accomplish this, we focus on three objectives: minimizing environmental impact, being an ethical forerunner and creating value for our stakeholders.

As a company, we are convinced that our long-term success is dependent on our 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 in our value chain.

CORPORATE RESPONSIBILITY 2020 PLAN SUPPORTING SUSTAINABLE DEVELOPMENT

We recognize that our responsibility is to have a positive impact on sustainable development within the societies we operate. For many of our customers, compliance with the United Nations Global Compact is a minimum-level requirement. To meet stakeholder requirements and expectations, we strive to integrate sustainability into our everyday life from both a policy and practical perspective. We also engage our stakeholders in an open dialogue about the topic.










Our corporate responsibility (CR) objectives include lowering the environmental impacts of our own operations as well as those of our customers and supply chain, to be an ethical forerunner in global society, and to create value for all stakeholders. Our Corporate Responsibility 2020 plan (for 2017-2020) is based on the CR materiality analysis conducted through a stakeholder dialogue in 2016. This plan also comprises elements from the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises.

While revisiting the expectations of our stakeholders, we have also taken into account the new CR initiatives and compliance requirements. The Corporate Responsibility 2020 plan reflects among other things Tieto's contribution to the United Nations Sustainable Development goals.

The following table summarizes our current CR targets for prioritized sustainability areas during 2017–2020.

Goals and results for each sustainability area

Sustainability area	Goal	Result 2017	Target 2020	UN sustainable development goals
 Equal Opportunities	Completion of Code of Conduct e-learning for awareness on equality, ratio (%)	88%	 ON SCHEDULE	 
 Employee Experience	Employee engagement score, % % of employees being always or often stressed and not being able to recover	73%	 TARGET REACHED  ON SCHEDULE	
 Ethical Culture	Completion of Code of Conduct e-learning, ratio (%)	88%	 ON SCHEDULE	
 Information Security and Data Privacy	Total number of substantiated complaints regarding breaches of customers' privacy and losses of customer data	0	 TARGET REACHED	
 Sustainable Supply Chain	New or renewed suppliers agreeing to Tieto's Supplier code of conduct, ratio (%)	100%	 TARGET REACHED	    
 Greenhouse Gas emissions	Reduction of CO ₂ emissions from Tieto's indirect energy consumption	-44%	 ON SCHEDULE	
 Sustainable IT Solutions	ktons CO ₂ avoided by customers through use of IT services provided by Tieto	75 kton CO ₂	 TARGET REACHED	  

 <p>Financial performance</p>	% sales growth	3.0%, or 3.6% in local currencies	 <p>ON SCHEDULE</p>	Above market CAGR
	% EBIT margin	9.0%	 <p>ON SCHEDULE</p>	Long term > 10%
	% adjusted margin	10.5%	 <p>ON SCHEDULE</p>	Long term >10%
	Annually increasing dividends	Base dividend up by 4%, additional dividend proposed	 <p>ON SCHEDULE</p>	Annual increase in absolute terms
	Net debt to EBITDA ratio, limited in the long term	0.8	 <p>TARGET REACHED</p>	<1.5 long term
 <p>Customer experience</p>	Net promoter score rNPS (-100 to 100)	21	 <p>ON SCHEDULE</p>	40
	Customer experience indexCXI (1 to 10)	7.97	 <p>ON SCHEDULE</p>	8.20

Corporate Responsibility opportunities and risks

MINIMIZING ENVIRONMENTAL IMPACT

Tieto recognizes that climate change is a global concern, which needs to be addressed by all enterprises and organizations. Minimizing environmental impact starts by focusing on what we can do on a daily basis. Most of our direct environmental burden comes from energy consumption and travel. By simply increasing the efficiency of the daily operations, Tieto has steadily reduced its CO₂ emissions. Tieto has implemented an ISO14001 certified environmental management system (EMS) since the end of 1990s. Currently over 90% of operations are covered.

We are moving to offices with green certificates and making the best use of each square metre. In our data centres, we are constantly trying to find new ways to optimize energy efficiency while the amount of data is increasing. In addition, our Nordic data centres run with renewable energy and whenever possible, the excess heat is recycled back to the nearby neighbourhood. Virtual meetings are a natural part of our way of working, and when travelling, we always try to find the most reliable partners for business travel.

The bigger opportunity, however, lies in reducing emissions in our customer industries through innovative IT solutions and services. According to the [Global eSustainability Initiative Smarter 2030](#) report, ICT can enable a 20% reduction of global CO₂e (CO₂ equivalent) emissions by 2030, thus keeping 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 benefits society at large.

BEING AN ETHICAL FORERUNNER

Being an ethical forerunner in global society means showing a good example as a corporate citizen both internally and externally in all our operating countries. The global #MeToo campaign created a lot of discussion around diversity and equality during autumn 2017. Tieto wants to ensure those values are taken seriously and actively promotes and communicates them as an integral part of our corporate culture.

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, especially in our supply chain.

Tieto's approach to business ethics is not only compliance-based, it is intended to create a culture based on transparency and openness. We call it an Open Source Culture, which means that we search and give feedback; we challenge the status quo; we are accountable for results; and we lead by example and values.

CREATING VALUE FOR STAKEHOLDERS

Our “creating value for stakeholders” objective involves Tieto’s key stakeholder groups: customers, employees and investors as well as society as a whole.

Tieto’s ambition is to enhance our customers’ use of digital services and solutions to support their business renewal. By delivering sustainable IT services and solutions to enterprises and public sector organizations, Tieto helps to improve economic, societal, as well as environmental conditions in our operating markets. At the same time, the company’s profitability can be strengthened, which is essential for our long-term success as an innovator, employer and taxpayer, to mention a few examples.

CORPORATE RESPONSIBILITY RELATED RISKS

Tieto strives to integrate corporate responsibility (CR) activities at the core of the business and to include CR elements in our business processes and systems. During early 2018, we have re-evaluated the main risks in our operations.

Tieto’s risks on corporate responsibility are mainly categorized as compliance risks. These risks always include a reputation factor, which in addition to negative publicity and associations among stakeholders may lead to a decline in the Corporate Responsibility indices or deviations in audits. Severe breaches in these areas could also lead to loss of customers who rely on highly reputable partners.

Fraudulent, unethical, or even illegal actions by individuals in areas such as corruption or conflict of interest can take place if anti-corruption awareness and team culture are not on a sufficient level. Such situations can lead to implications ranging from disqualification from public tenders to contractual sanctions. Compliance training, audits and follow-ups are used to mitigate the risk.

Employee wellbeing and stress-related health issues together with discrimination and harassment are the identified risks related to human and labour rights. From operational perspective, Tieto’s customer deliveries could be compromised if key resources are on long sick leaves. Both health issues and discrimination and harassment can create a working environment where employees may not reach their full potential. Discrimination could also hinder our ability to develop innovative solutions to address customers’ problems.

Tieto strongly believes that diversity of personnel, whether based on gender, age or cultural background, is needed to stay competitive in the fast-paced IT industry. Diversity and inclusion form an integral core of our Open Source Culture. Being able to recharge and maintain wellbeing is equally crucial. Employee health and wellbeing index is measured and followed up across the organization and actions taken where necessary.

Tieto’s supplier base consists of direct and indirect suppliers. Risks related to supply chains may include compliance risks related to environment, human and labour rights or even corruption. Severe breaches against international conventions in the supply chain could lead to customers terminating their contracts. Tieto mitigates these risks through the Supplier sustainability program and on-boarding practices, consisting of both compliance and audit activities. We also continuously develop our partner qualification and third-party risk management processes.

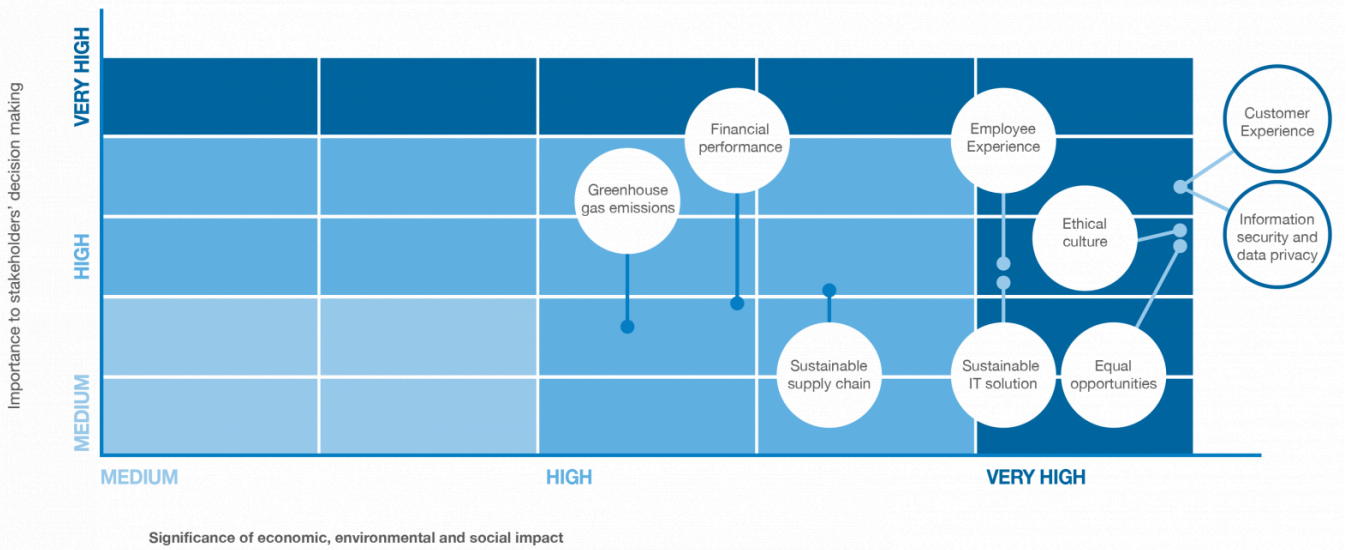
Materiality analysis

Tieto initiated a materiality assessment engaging internal and external stakeholders at end of 2016. As a result, nine sustainability areas were identified and chosen to guide Tieto’s approach in the sustainable business and form the core of the Corporate Responsibility 2020 plan.

While Tieto’s material sustainability areas are reviewed on an annual basis, the materiality analysis and Corporate Responsibility 2020 plan are guiding the work until the end of the current strategy period. The new list of sustainability areas is based on the materiality

analysis conducted in 2016, and is presented in the graph below. The areas are material for the whole Tieto Corporation, unless otherwise stated, and cover Tieto’s operating countries.

Materiality results 2017



In this materiality analysis, conducted according to GRI Standards requirements, stakeholder engagement included a sustainability area survey of employees, partners and suppliers. Selected customers were met for dialogue on sustainability and focus areas, and an open survey as well as a Twitter chat was organized for the general public.

Tieto believes that an open and transparent dialogue with its stakeholders is the best way to evaluate our footprint as a corporate citizen. In addition to conducting separate CR materiality assessments, the company strives to integrate CR as an integral part of everyday interactions with customers and other stakeholders.

Sustainability area boundaries according to GRI standards

SUPPLIERS	PARTNERS	TIETO	CUSTOMERS	END-USERS
GHG Emissions		GHG Emissions		
		Sustainable IT		
Sustainable supply chain				
Ethical culture				
		Equal opportunities		
		Information security and data privacy		
		Employee experience		
		Financial performance		
			Customer experience	

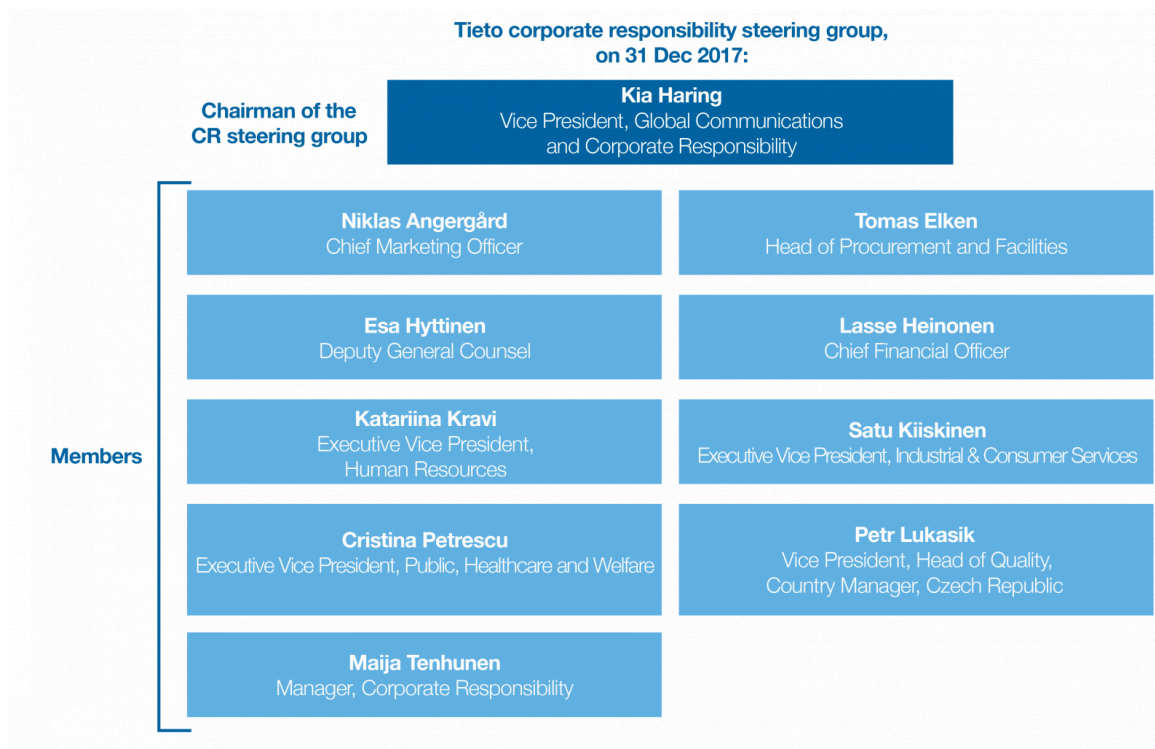
Managing Corporate Responsibility

Sustainable value chains are becoming more and more important to 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 in enabling CR to be integrated into daily business operations.

CR STEERING GROUP LEADING THE WAY

Tieto's corporate responsibility work is led by the company's CR steering group. This group advises the Leadership Team and Board of Directors and approves Tieto's yearly Corporate Responsibility Report. The CR steering group represents different functions and units of Tieto, ensuring the voices of internal and external stakeholders are taken into account. Our aim is to maintain a balanced male and female representation in the steering group, as well as younger and more experienced management representation.

In 2017, the CR steering group approved the Corporate Responsibility 2020 plan. The plan focuses on Tieto's long-term goals: minimizing environmental impact, creating value for stakeholders and being an ethical forerunner in society. During the year, the steering group followed up and discussed the implementation and engagement needed to successfully execute the Corporate Responsibility 2020 plan. From the reporting perspective, the steering group discussed the integrated reporting project as well as the new non-financial information requirements in the Finnish Accounting Act.



Daily CR activities are coordinated by a CR team. The team is led by Vice President, Global Communications & Corporate Responsibility, Kia Haring, who is also the owner of the company's CR policies and processes. In her role Kia Haring is also chairman of the CR steering group and reports to the company's President and CEO, Kimmo Alkio.

In addition to the CR steering group, the Sustainability Area steering group and Environmental Managers' steering group were run to ensure aligned implementation of strategic as well as operative CR and sustainability issues.

The management of specific sustainability areas, as defined in Tieto's materiality analysis, are handled by the appointed area owners. These owners are responsible for setting goals and reporting on area KPI performance. High-priority CR goals are presented in the Corporate Responsibility 2020 plan, which is approved by the Leadership Team in cooperation with the Board of Directors. Management of specific sustainability 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.

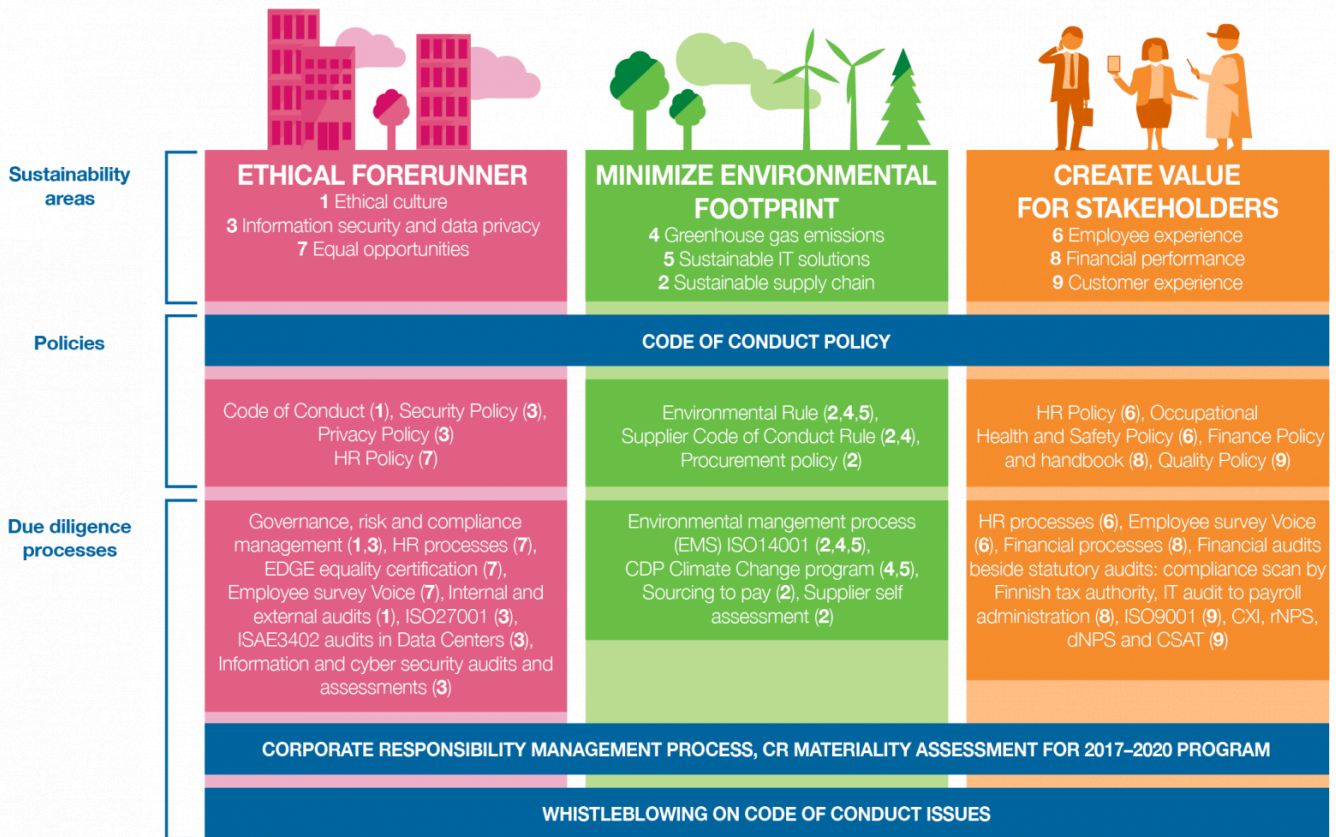
To clarify the ethical guidelines applying to suppliers, Tieto has a separate [Supplier Code of Conduct Rule](#), which is also based on the United Nations Global Compact and OECD Guidelines for Multinational Enterprises. This rule is implemented in all new supplier contracts with regular suppliers. 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 the 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 sustainability areas. Policies and rules are reviewed on a yearly basis, as part of the company's compliance program.

MANAGEMENT OF SUSTAINABILITY AREAS

The summary of policies, processes, compliance with standards and grievance mechanisms linked to Tieto's sustainability areas is described in the graph below. A dedicated owner manages each of the sustainability areas and leads its development. Tieto's policies and rules are reviewed on an annual basis. By definition, the policies and processes apply to the entire organization. The commitments outlined here are mainly voluntary. References to mandatory requirements are highlighted in the respective sustainability area texts. The main grievance mechanism related to Code of Conduct compliance is the Escalation board. The handling of escalations is described in more detail [here](#).

POLICIES AND PROCESSES COVERING SUSTAINABILITY AREAS



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 the Tieto Way business system. This process utilizes best practices from the United Nations Global Compact Management Model and GRI Standards. 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 sustainability area owner.

Our Code of Conduct and Anti-Corruption e-learning supports the implementation of CR practices among employees. The company also has an environmental e-learning course that supports the implementation of the Environmental Management System and ISO 14001 certifications.

Tieto believes sustainability concerns the whole company, and encourages employees to discuss and promote the positive sustainability impacts that digitalization can bring to customers. CR presentation materials are a regular part of the company’s sales materials. These materials, including comprehensive background materials, help sales teams to learn about CR and answer customers’ CR requests. Naturally, the CR team and area owners actively support the sales teams.

Tieto’s approach to CR and sustainability is mirrored through the company’s values, which have been developed in cooperation with employees – We work together. We care for our people and customers. We are committed to quality. We learn and grow.

Customer experience

Tieto's ambition is to make customer experience a competitive differentiator and become customers' first choice for their business renewal. In 2014 Tieto set out a vision and roadmap for developing its customer experience and has consistently followed these steps. In 2016-2017 the focus was especially on the Voice of the Customer (VoC) concept and reinforcing a customer-centric culture across the company. An encouraging milestone was reached in 2017 when Tieto achieved all-time-high results in customer experience measurements.



Having customer experience as a competitive differentiator calls for commitment from the entire Tieto team: promises to customers need to be fulfilled in every interaction, seamlessly through all touchpoints, every single day. This in turn requires Tieto to treasure a corporate culture where both employee and customer experience are equally valued, recognizing their undisputable correlation. A key ingredient in keeping this formula working is encouraging continuous interaction and feedback from customers. At Tieto, the customers'

contributions are greatly valued and teams across Tieto focus on making the best use of them in developing our operations – every day. This ambition is also stated in Tieto's Quality Policy.

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

As every interaction counts, in 2017 Tieto continued the implementation of its Customer Experience (CX) strategy by including customer experience in the individual goals for every employee and manager. Actions were also taken focusing on delivery and design quality, as well as capabilities, perceived value, and customer centric culture across Tieto. For example, several facilitated customer-specific actions, such as coaching sessions and workshops to improve customer experience, took place. As part of the planned activities in 2018, the aim is to activate a CX community for sharing best practices and to enhance learning from other teams within Tieto.

As a company with multiple business areas, Tieto strives to ensure a seamless and unified customer experience across all touchpoints for our customers. One effort to enhance this is through simpler onboarding for customers and services with new service management platform, ServiceNow.

Tieto also finalized its Digital Channels strategy during 2017, with the aim to build a consistent Tieto experience for customers, employees, partners and other stakeholder groups that Tieto engages with through digital channels. Based on a core concept created in 2017, the work will continue in 2018 with first concrete implementation steps.

The long-term focus and progress in customer experience was acknowledged in 2017, when Tieto achieved fifth position in the [State of Customer Experience Management study](#) of Finnish companies.

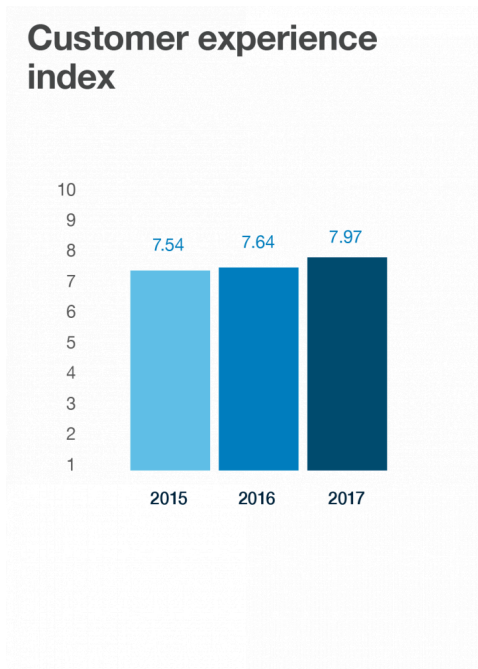
“ There is a clear correlation between employee engagement, customer experience and revenue growth.

ALL-TIME HIGH PERFORMANCE IN CUSTOMER EXPERIENCE

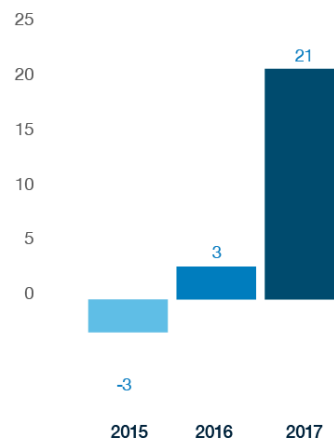
At Tieto, the year-on-year performance in customer

experience is monitored through the Customer eXperience Index (CXI) and Relationship Net Promoter Score (rNPS)[®]. To support the company’s strategic ambition of becoming customers’ first choice for business renewal by 2020, Tieto aims to achieve superior customer experience and customer-centric culture that create value to all stakeholders. To achieve this, Tieto is aiming for a Customer eXperience Index score of 8.20 and a Relationship Net Promoter Score[®] of 40 by 2020.

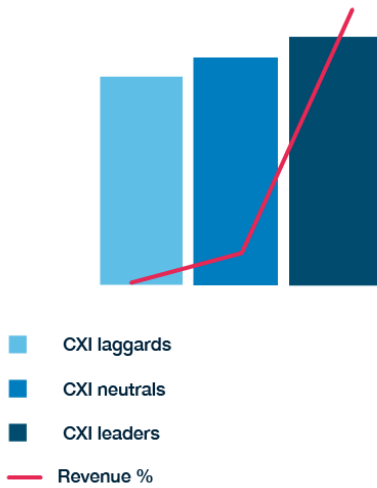
Tieto’s CX results from 2017 proved a clear correlation between employee engagement, customer experience and revenue growth as manifested in the graph below. The results also indicate that Tieto’s consistent multi-year work on company renewal and culture is starting to materialize. In 2017, Tieto achieved its all-time high CX results with a CXI of 7.97 (2016: 7.64) and rNPS of 21 (2016: 3). Almost 690 customer representatives participated in the annual survey, giving their feedback in face-to-face interviews. All Tieto employees had a chance to volunteer as interviewers – this is one of the numerous ways Tieto enhances its customer-centricity at all levels of the organization.



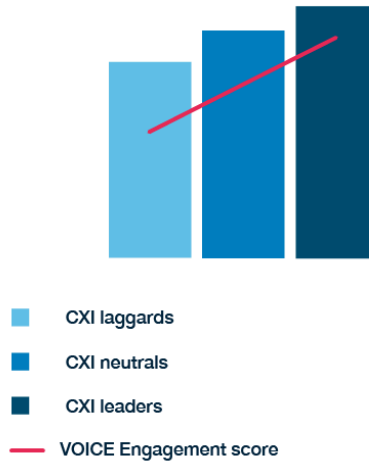
Relationship Net Promoter Score[®]



Customer eXperience Index vs. Revenue Growth %



Customer eXperience Index vs. VOICE Engagement Score



A new way of listening to our customers and acting on their input during key phases of the customer journey was introduced in 2017, called the Voice of the Customers (VoC) concept. In 2018 the renewal work will continue with the remaining parts of the customer journey and will focus on the key

touchpoints. Ultimately there will be real-time, accurate and actionable customer insights made available to all employees.

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

Information security and data privacy

Today’s increasingly complex IT landscape sets new demands on security for protecting personal and business-critical information. Cyber security resilience is a fundamental part of Tieto’s business, and vital for maintaining customers’ trust. Tieto is constantly updating its processes and training employees to achieve superior security performance.



As one of the largest IT service providers in Northern Europe, Tieto recognizes that any disturbances in IT infrastructure or IT systems involving customers can have an immediate impact on a large number of users, whether in their professional or private lives. For this reason, information and cyber security must be part of any process, delivery, or work the company does. Tieto's security arrangements aim at predicting, preventing, responding and detecting different types of attacks and incidents.

Tieto’s Information Security Management System (ISMS) covers the company’s information security rules and organization, and provides the mandatory information regarding security processes. In general,

information security deals with confidentiality, integrity, and availability of IT services and data.

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, the company strives to increase information security awareness among employees by various means, such as organizing e-learning courses, conferences and training programmes. For example, in 2017 Tieto launched new security e-learning modules, a separate security awareness campaign, continued with the internal GDPR program and related information security activities, and upgraded the Governance, Risk Management and Compliance (GRC) platform.

“ Cyber capability maturity assessment conducted on an annual basis

During the year, Tieto also conducted a cyber capability maturity assessment, and implemented a three-year cyber security plan, which aims to improve Tieto’s overall cyber resilience, and this is reviewed and updated on an annual basis.

Risk management, business continuity, awareness and well-functioning security services are all important building blocks for establishing good cyber security resilience. At Tieto, the 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 the Board of Directors' Audit and Risk Committee.

Tieto's Security Policy and Privacy Policy help to manage information security and data privacy throughout all business operations. The company 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 of 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. These European Commission standard contractual clauses are used as contractual safeguards when transferring personal data from EU to non-EU countries. All policies are reviewed annually.

For unexpected incidents, Tieto has a Major Incident Management (MIM) process in place. It supports the 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, and defines communication and mitigation actions based on the sensitivity and criticality of the incident. This framework will also be used in relation to GDPR requirements for timely breach notification.

“ Tieto implemented a three-year cyber security plan

Tieto uses different international standards as reference where applicable. For instance, the ISO 27001 standard is used for Information security, the ISO 31000 standard is used for risk management, while the Information Security Forum's Standard of good practice is used for information security, and of course Tieto fully implements the New EU GDPR regulation. Tieto also conducts annual ISAE 3402 audits, which describe and document the adequacy of internal controls for information security and financial reporting. This audit is carried out for data centres and customer specific infrastructure services.

During 2017, no substantiated complaints regarding breaches of customer privacy and losses of customer data were reported.

In addition to maintaining its active dialogue on cyber security issues with stakeholders on a societal level, Tieto will continue with GRC platform developments and concentrate further on refining business continuity management. The plan for 2018 also includes further improvements to Tieto's security incident management and audit follow-up.

Our people

The dynamic evolvement of Tieto's business environment is placing high demands on people development and employee experience. During 2017, hundreds of recruitments as well as an acquisition took place to strengthen competences across different businesses. Tieto continued to enhance employee engagement and witnessed encouraging improvement in the area.

The dynamic business environment is impacting competence needs for Tieto as well as other companies across all industries. The main drivers for competence renewal are the overall digitalization of society, emergence of new business models and managing the twofold challenge – i.e. simultaneously driving productivity of existing businesses and innovating new future businesses.

Tieto needs expertise with deep knowledge of IT and the latest technologies, together 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 into new businesses call for new competences and skills.

The changing competence needs are not only impacting Tieto, but societies globally. As a responsible employer and corporate citizen, Tieto is committed to mastering this change in ways that foster benefits to individuals, society at large and the company. Tieto focuses on attracting new talent with opportunities related to the adoption of new technologies and interesting customer cases. We promote continuous learning mindset and provide flexible learning opportunities for the entire organization.

One example of continuous learning is Tieto's learning programme launched in Poland, where experienced IT professionals are invited to a 3-month training programme to learn new programming languages, for example. The training is free of charge and open both to Tieto employees and external candidates. Participants receive financial compensation to ensure they can grasp this opportunity without risking their income.

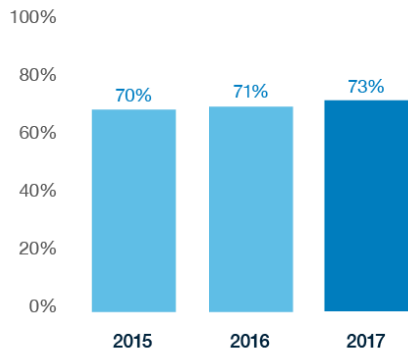
To support the continuous renewal of the company, we aim to attract the younger generations by offering extensive trainee programmes, for example in China, Poland and the Czech Republic. In 2017, a total of 111 trainees joined our programmes and the majority of participants were offered employment at Tieto afterwards.

Tieto's activities in Poland during 2017 are a good example of the achievements of a responsible, active and engaged corporate citizen. Proactive collaboration with suppliers, universities and industry networks resulted in the recruitment of close to 600 new employees to Tieto's Product Development Services business.

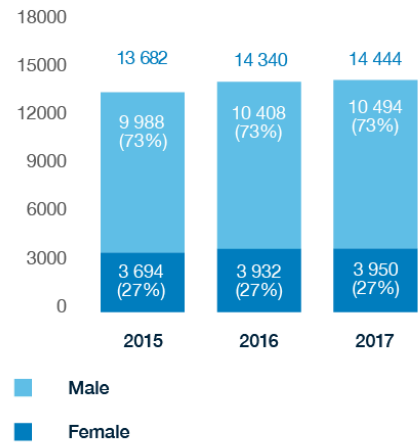
Overall, approximately 2 300 new employees were recruited to Tieto during 2017, for instance, industry and solution consultants, architects and software developers.

In December, Tieto acquired the Swedish consulting company Avega, welcoming 350 new experts to Tieto. The acquisition will support Tieto's growth businesses and strengthen its footprint in the consulting-led Swedish market.

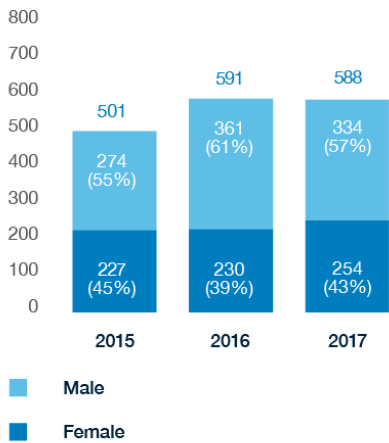
Employee engagement score



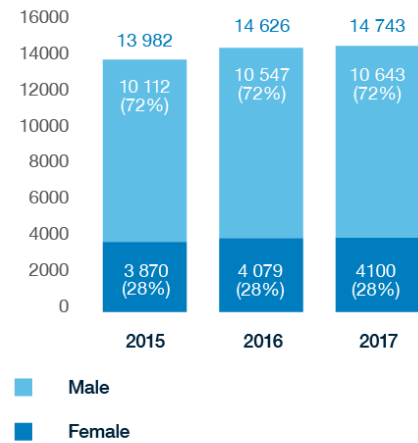
Full-time employees by gender, 2015–2017



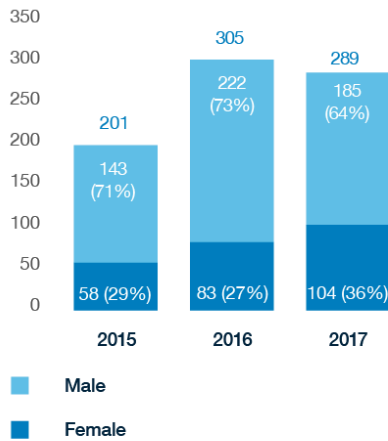
Part-time employees by gender, 2015–2017



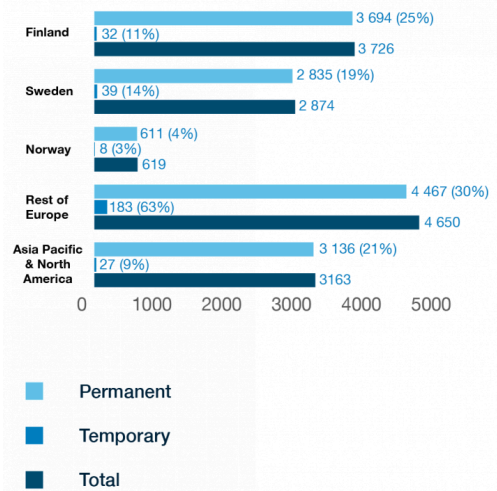
Permanent employment contract by gender, 2015–2017



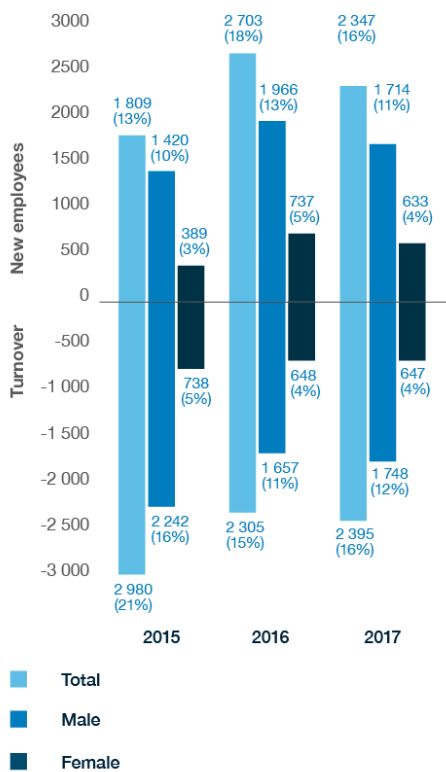
Temporary employment contract by gender, 2015–2017



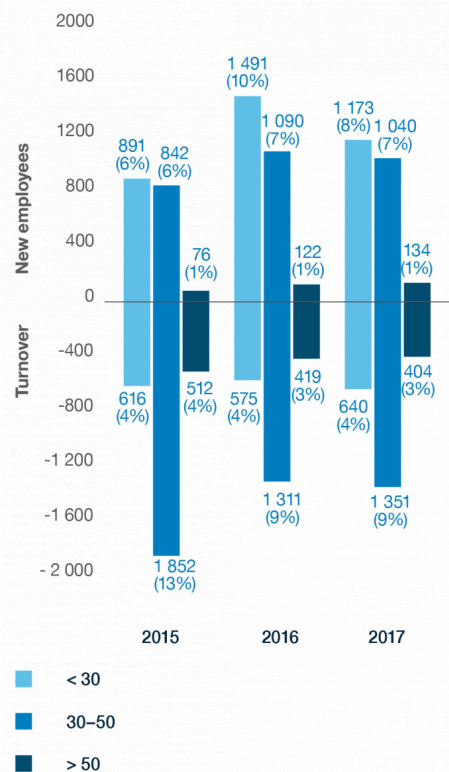
Total number of employees by employment contract by region, Dec 31 2017



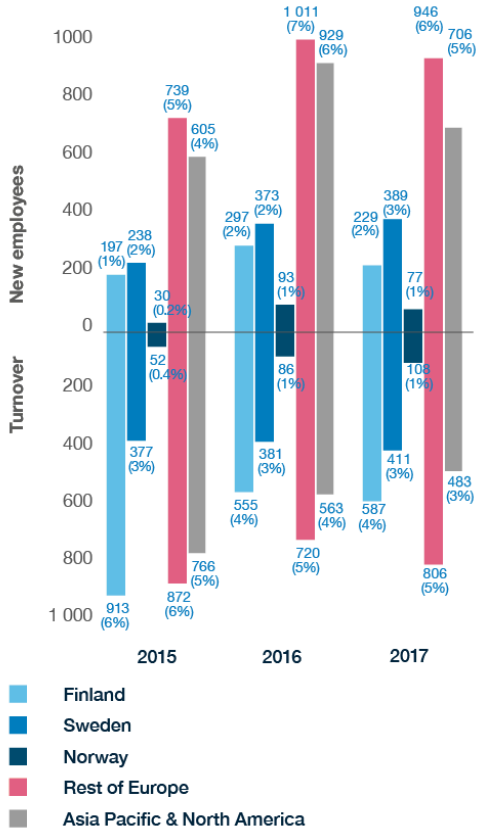
New employees and employee turnover by gender, 2015–2017



New employees and employee turnover by age groups, 2015–2017



New employees and employee turnover by region, 2015–2017



Tieto’s Human Resources (HR) function 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 Industry Groups and Service Lines.

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.

Employee experience

Tieto recognises employee experience being vital for its strategic ambition to become customers' first choice for business renewal. Tieto's Open Source Culture is the core foundation for building a good employee experience, supported by advanced technology and a modern working environment.



To facilitate the execution of the company's strategy launched in 2016, Tieto is further fostering its Open Source Culture based on openness and transparency. It is all about employees feeling included, empowered, able to influence their work and together contribute to an inspiring working environment.

Continuous learning is key to personal and organizational success in today's rapidly changing world. In 2017, Tieto implemented the 'Learning as a Lifestyle' initiative for all employees, inviting them to be curious and learn about the IT industry's hot topics, starting with Design Thinking, DevOps and Advanced Analytics. Tieto's own topic experts created the curriculum for each of the three learning tracks. Simultaneously, a new

learning platform was opened to support Tieto's digital learning journey. With the learning platform being available also through smartphones, all employees are able to access it easily on the go and have learning as part of their everyday digital lives.

Innovation is highly valued at Tieto and employees are encouraged, for example, to take part in hackathons to create new and better services for smarter and more sustainable societies. Internal hackathons have been organized for co-creating and developing Tieto's internal people processes, for example, re-designing the company's performance review process.

Employee engagement, as an outcome measure of the perceived Employee Experience, is measured on an annual basis through Tieto's employee survey VOICE. In 2017, the response rate was 84%. The overall employee engagement score reached 73%, showing a slight improvement year on year, and has continued to develop positively since 2014.

As a responsible employer in a fast paced industry, Tieto wants to monitor its employees' well-being. In 2016, Tieto introduced a new measure to follow if people are able to recharge their batteries and feel energized when starting their next working day. According to the new metrics, 308 out of a total of 11 950 of the respondents to the VOICE employee survey had experienced challenges in recovering from their workday. This percentage is in line with the industry standard, but still a factor requiring attention.

ENHANCING COMPANY CULTURE WITH LEARNING OPPORTUNITIES AND TALENT DEVELOPMENT

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 shared responsibility of the employee and the company.

To support the constant need for development, Tieto is continuously enhancing its Open Source Culture, where employees can grow and learn through collaboration and co-innovation across ecosystems. Modern activity-based offices and digital tools supporting flexible ways of working are examples of how the company is striving to reinforce a work environment aligned with the culture. In 2017, 73% of Tieto employees were content with the leadership, and 66% felt that Open Source Culture met their expectations.

Tieto supports employees' professional growth and learning needs with multiple options, including job rotation, on-the-job learning, self-study, working in different assignments as well as through various training and e-learning courses. Approximately 680 training courses are available in Tieto Academy, an internal training portal, and the company also organizes tailored training courses based on needs. During 2017, for example, training opportunities on GDPR were available and highly valued.

Every year, Tieto further develops its existing competence development offerings. For example, based on feedback from Tieto leaders, some virtual leadership development courses were piloted during 2017. As a standard practice, the employee feedback from trainings is used to develop the training experience.

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 2017, 44% of Tieto employees were covered by collective bargaining agreements. However, the differences between countries vary extensively, with the highest participation being in Sweden (98%) and in Finland (98%). In the countries of operation where collective bargaining is not applied, for example, China and India, Tieto strives to facilitate local forums where these topics 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 of 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 prescribed in national, state, or local laws, ordinances or regulations.

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 Head of Human Resources 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 elect two members and two deputy members to the Board of Directors. This is done by the personnel representatives in accordance with the Personnel Representation Cooperation Agreement. One of the aims of personnel representation is increased unity in decision making concerning, for example, business operations, financial matters and personnel considerations.

Equal opportunities

Tieto provides equal opportunities for all employees and sees diversity as a strength, helping to build the company's competitiveness and future innovations. As an example of the focus, Tieto in Sweden received the internationally recognised gender equality certification from the Swiss EDGE Certified Foundation in 2017 for the second consecutive time.



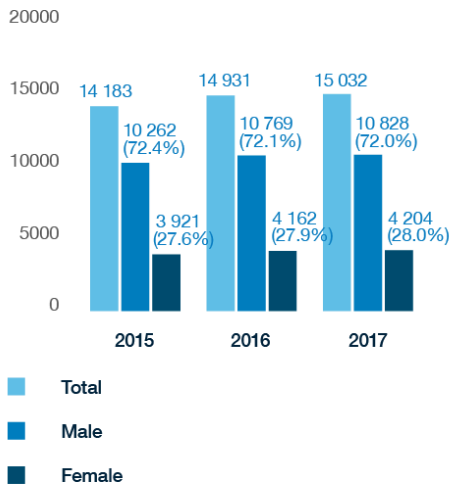
The ICT industry is developing at a rapid pace. Tieto believes a wide mix of people, regardless of gender, age or cultural background, is equally valuable to the company's competitiveness as to a good, inspirational working place. Therefore, diversity and inclusion are an integral part of the company's Open Source Culture and core Human Resources activities, such as recruitment, salary revisions and talent programmes. 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 2017, 72% (72%) of personnel at Tieto was male and 28% (28%) female. The IT industry is generally still male-dominated and an equal division of male and female employees will be difficult to achieve in the short-term. To steadily increase the number of women in the company, Tieto implements country-specific equality initiatives based on local requirements and needs, and successes in these have been recognized, for example, with the Gold Membership of the Oda Network in Norway and the Sandvik Diversity Award by the Swedish Chamber of Commerce in India.

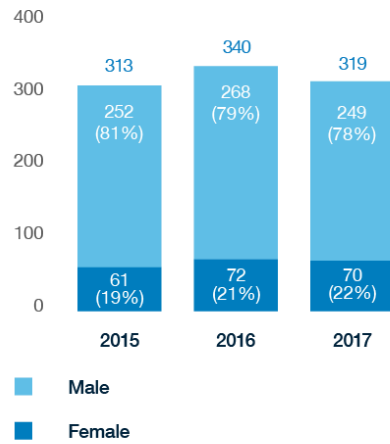
Tieto Sweden was the first IT company in the world to receive gender equality certification from the Swiss EDGE Certified Foundation at the end of 2015 (valid for two years), and received it again in 2017. This certification represents the leading global assessment methodology and business certification 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 also gives out the IT-woman of the year prize, on 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 to have management positions increasingly represent females, young professionals and different nationalities. The share of women in senior management positions reached 22% (21%) at year-end. By 31 December, Tieto Leadership Team consisted of six men and three women and Tieto's Board of Directors of seven men and two women.

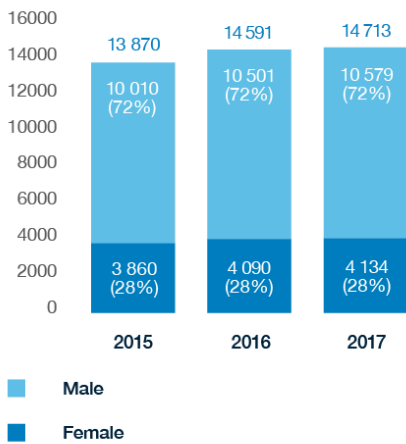
Total workforce by gender, 2015–2017



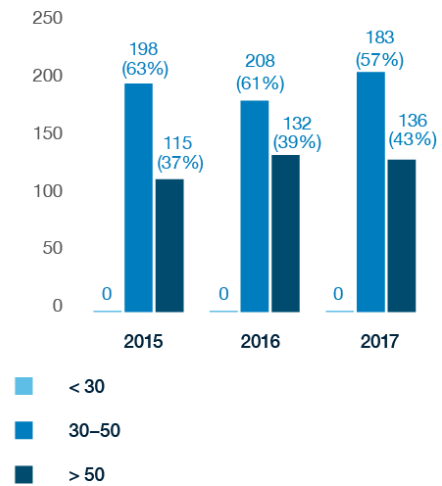
Senior management by gender, 2015–2017



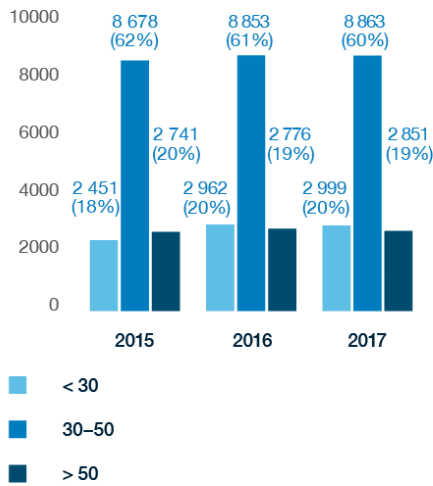
Employees by gender, 2015–2017



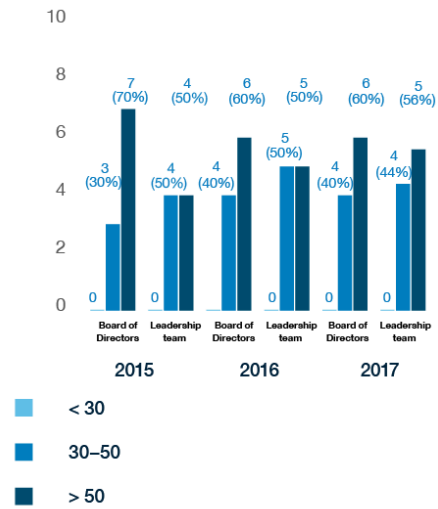
Senior management by age groups, 2015–2017



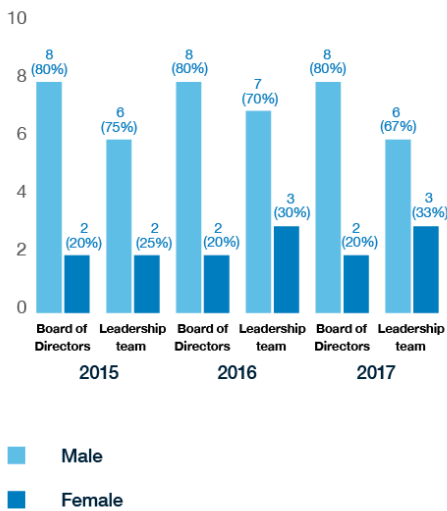
Employees by age groups, 2015–2017



Board of Directors and Leadership team by age groups, 2015–2017



Board of Directors and Leadership team by gender, 2015–2017



At the end of 2017, the average age of Tieto employees was 40 years. Many roles in the IT services industry require technological and managerial skills acquired through years of experience. At the same time, the young generation is important in bringing in new fresh ideas as well as ways of working to the company.

To recruit young professionals Tieto has, as one example, carried out a yearly graduate trainee program 'GenT' in Finland, Sweden and Norway. GenT trainees are motivated and talented young people who can help drive innovation and company renewal, including fostering a culture of curious and open cross-business, cross-unit and cross-industry collaboration. Tieto also offers summer trainee and master thesis opportunities for students across a number of its operating countries.

Tieto's Code of Conduct policy and HR policy state that no forms of discrimination or disrespectful treatment at work are accepted. Employees at Tieto are instructed to escalate any misconduct or suspected violations against the company's business ethics guidelines, and they have the option of doing so anonymously.

While the aim is zero discrimination incidents, the importance to actively champion equality, diversity and inclusion is acknowledged at Tieto. A precondition for this is the company's Open Source Culture supporting employees feel safe and free to speak up. In 2017, a total of five whistleblowing notifications about discrimination were reported at Tieto and investigations carried out according to company practices. Four cases are no longer subject to action while corrective actions are being implemented for one of the cases. In two cases, the corrective action included termination of employment. Two of the investigated cases were concluded to not be discrimination.

Tieto is committed to continuously strengthen diversity and inclusion within the company. The plan includes building awareness about the ambition, values and ways of working as well as improving the whistleblowing mechanism, so that all cases of misconduct come to light and are processed accordingly. In addition, inclusion is embedded in Tieto's global operating plan as one key area enabling better life at work during 2018 and the years to come.

Ethical culture

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



Tieto sees implementation of ethical values and work practices as a vital part of the company's corporate responsibility, and has zero tolerance for any unethical behaviour. Tieto's ethical values are outlined in the company-wide Code of Conduct Policy and related Rules, which apply to all stakeholders. The Code of Conduct Policy is aligned with local legislation in Tieto's operating countries, such as the UK Bribery Act and US Foreign Corrupt Practices Act.

During 2017, the #MeToo movement generated widespread global discussion on sexual harassment. #MeToo has ultimately expanded into a wider, worldwide discussion on human rights and initiatives aimed at creating a more equal and value-based world. It also showcases the demands for

more transparency and for corporations to take a more active role in driving positive change.

At Tieto, internal communications on the Code of Conduct Policy and Anti-Corruption Rule were strengthened during 2017. As result, the amount of Tieto employees who completed the Code of Conduct e-learning rose from the previous year to 88% of all employees. As Tieto aims at 100% e-learning coverage, efforts to reach this target will continue. Towards the end of 2017, updates to the mandatory Code of Conduct e-learning were initiated to highlight Tieto's zero tolerance towards any kind of unethical behaviour, and to strengthen whistleblowing, harassment and conflict of interest aspects.

POLICIES AND RULES GOVERNING BUSINESS ETHICS

Tieto's Code of Conduct Policy is in accordance with the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises. It defines such things as the company's human rights and workplace practices regarding non-discrimination, equal opportunities and a safe working environment. The policy 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.

Tieto's HR policy, and health and safety policy provide additional guidance regarding specific sections in the Code of Conduct Policy. Tieto also has separate rules with detailed guidance, such as 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 an 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 they 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.

The company 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.

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.

IMPLEMENTING ETHICAL BUSINESS PRACTICES IN DAILY BUSINESS OPERATIONS

Tieto's goal is that all employees are aware of, and know Code of Conduct and are proactively implementing ethical culture in Tieto's operations. In addition to accepting the Code of Conduct when joining the company, 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 is based on 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.

“ 88% of employees trained in the Code of Conduct Policy and Anti-Corruption Rule

The increased focus on Code of Conduct Policy training generated good results in 2017. By the end of 2017, 88% (86%) of employees had been trained in the Code of Conduct Policy and the Anti-Corruption Rule.

MONITORING AND FOLLOW-UP OF UNETHICAL BEHAVIOUR

Tieto's approach to unethical behaviour is embedded in the company's proactive awareness campaigns, continuous monitoring and follow-up processes. The company'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 the 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 the risks found. The aim is to ensure the company complies with the laws, regulations, and customer agreements in focus, as well as the company's 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.

Some internal investigations and audits are also initiated by whistleblowing. Tieto's whistleblowing process allows anonymous and confidential reporting on suspected violations of the Code of Conduct, related rules, or any unethical behaviour to the General Counsel of the company and to the Internal Audit function. 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 the 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 the testing of transactions as well as assessment of possible risks of corruption. The scope of the testing may cover ad-hoc audit assignments to evaluate the efficiency of the risk controls in place.

“ Zero tolerance for unethical behaviour

As part of Tieto's zero tolerance for unethical behaviour, the company has as its goal that all its employees are not only aware of and know the Code of Conduct, but also that they know how to report suspected breaches. In 2017, a total of six breaches of the Code of Conduct Policy took place.

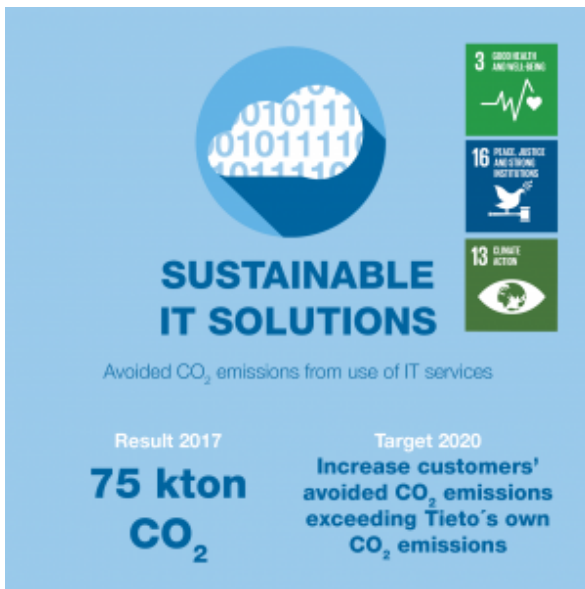
Internal whistleblowing escalations in 2017 generated six investigations in six different countries at eight sites, altogether covering approximately 25% of employees. These investigations included the analysis of risks of corruption, harassment, discrimination, conflict of interest, and suspected false invoicing and skimming.

External audits in 2017 covered 100% of our employees in all business operations and countries. No findings of misconduct were discovered in the financial audits in 2017.

Going forward, Tieto will evaluate learnings gained from customers' supplier codes of conduct and liability rules. Tieto also plans to further strengthen awareness about these among its customer and delivery teams. In addition, the review and updating process of Tieto's Code of Conduct e-learning was initiated at the end of 2017. Plans also exist to review the Code of Conduct Policy as a whole in the near future.

Sustainable IT

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



Tieto envisions a future in which information is the biggest driver of continuously increasing social, economic as well as environmental value. The positive impacts of IT spanning over economic, social as well as environmental areas have already been realised.

For Tieto, sustainable IT is a broad term describing the positive environmental and social impacts of IT equipment and services. Tieto puts effort into purchasing hardware, which is environmentally efficient and produced under responsible conditions respecting international conventions on human and labour rights, as well as environmental and anti-corruption legislation. However, with the help of IT services, Tieto can create even a wider positive impact for people, businesses and society at large.

Digital finance, insurance, trade and accounting solutions all have similar types of environmental and societal benefits. When manual processes are digitized, efficiency improvements and the reduction or even elimination of the need to travel, for example, to a bank branch office, generate substantial CO₂ reductions in the process. At the same time, transparency improves as, for example, electronic invoices eliminate the grey economy. Consumers are able to make more informed decisions and service availability and experience improve. These services enabled 75kton CO₂ avoidance, which is three times our own reported emissions (24 kton CO₂).

In healthcare and welfare, digital solutions have opened totally new opportunities for patients as well as society at large. One example of [Sustainable IT is found in the municipality of Nacka in Sweden](#), where digital solutions and tools improve the everyday life of individuals living at home. In addition to the socioeconomic benefits, some environmental benefits are predicted to be generated by the distance service. An example of information supporting smarter decisions and innovation is the unique artificial intelligence experiment by [Tieto and City of Espoo](#) in Finland. The experiment involves combining a huge amount of anonymized social and health data concerning every Espoo resident, and customer data relating to early childhood education from 2002 to 2016. The aim of analysing this mass of data is to identify new proactive means of targeting services to citizens, for example, to prevent social exclusion.

MEASURING SUSTAINABILITY IMPACTS OF IT

According to the [Global eSustainability Initiative Smarter 2030](#) report, ICT can enable a 20% reduction of global CO₂e (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. Tieto has measured the positive sustainability impacts of IT since 2010 by calculating the avoidance of CO₂ emissions enabled by the use of the company's digital transaction services and other identified services replacing paper. In 2017, Tieto initiated a project for updating an existing CO₂ avoidance model. In addition, Tieto set a numeric goal for the first time in 2017 to achieve higher level of avoided CO₂ emissions at customers compared to Tieto's own reported emissions.

“ Based on Tieto's calculations, the company's CO₂ emission avoidance amounted 75 kilo tons CO₂ with these services alone.

It is also important to maintain a holistic approach to Sustainable IT. One side-effect of digitalization is increased energy consumption. Tieto's new-generation data centres have energy efficiency as a key criterion. In addition, all Tieto's data centres in the Nordics utilize renewable electricity. In Espoo, Finland, excess heat from the data centre's servers is distributed to private households and offices through the local district heating network. A similar energy recycling solution is in use in Stockholm. In 2017, a total of 15 656 200 kWh was recycled back to the district heat network, corresponding approximately to the annual energy consumption of 800 households.

Tieto will continue to investigate further the possibilities of Sustainable IT. The plan for 2018 includes concluding the initiated socio-economic impact study and expanding the environmental impact studies.

Sustainable supply chain

Tieto’s Supplier Sustainability Programme, continued in 2017, is helping to strengthen the implementation and management of Tieto’s ethical requirements throughout the supply chain. By the end of 2017, the Supplier Code of Conduct Rule coverage represented 86% of the total spend on our 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. Our indirect suppliers deliver products and services needed for our own operations, such as human resources services, facility management and travel services.

In 2017, the total monetary value of all our procurement amounted to EUR 607 million (609), representing 39 per cent of our revenues. Approximately 190 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 applies to all Tieto companies and employees in all operating countries, and describes how purchases should be handled. Based on company values, our Code of Conduct, and Operative Decision Making and Authority policies, the Procurement Policy states that the Tieto Supplier Code of Conduct Rule should be implemented in all new supplier contracts. Thus, discussions on ethical and environmental topics are a regular part of our procurement practices. The Tieto Supplier Code of Conduct Rule is based on the United Nations Global Compact (UNGC) principles and amended with Tieto specific requirements.

In Tieto, the group-level Procurement unit holds a key role in the implementation of our Procurement Policy and Supplier Code of Conduct Rule, and works in close co-operation with businesses. Tieto's Code of Conduct e-learning is mandatory for all employees annually, and each person is informed how to report possible violations. In addition, Tieto conducts self-assessment surveys to prioritized product categories annually to estimate the Code of Conduct implementation, and to mitigate risks in the supply chain.

Tieto updated its Sustainable Supply Chain targets in 2017 to respond closely to the risks and changes in the supply base. Tieto already has a good procurement process in place, so the focus will be on new and renewed supplier contracts to cover the Supplier Code of Conduct. In 2017 the coverage of new contracts going through the procurement process including Supplier Code of Conduct was 100%.

Additionally, as Tieto recycles hundreds of tons of E-waste annually, the company wants to have responsible partners ensuring the end-life treatment of ICT equipment and servers.

The coverage of E-Waste recycling partners aligned with Tieto's Code of Conduct rose to 79% (74%) in 2017.

In general, first-tier suppliers enable easier control and thus provide better opportunities to address sustainability related issues. As a result of consistent consolidation, the number of suppliers in Tieto's supplier base has decreased significantly during the past years, from 7 200 in 2014 to 6 300 in 2017. 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 86% of total spending on regular suppliers. ”

Tieto's aim is that all external business undertakings providing goods, services, technology or subcontractors to Tieto on a regular¹⁾ basis, will comply with the minimum requirements stated in the company's Supplier Code of Conduct Rule. By the end of 2017, the coverage represents 86% (85%) of Tieto's spending on regular suppliers. 45% (49%) of all regular¹⁾ suppliers had accepted Tieto's Supplier Code of Conduct Rule. This means that the number of regular suppliers has increased, as the total supplier number has gone down.

In addition to this, Tieto has also actively implemented aligned business practices with hundreds of new suppliers following acquisitions made during the year. Zero violations of the Supplier Code were encountered in 2017 through audits or whistleblowing.

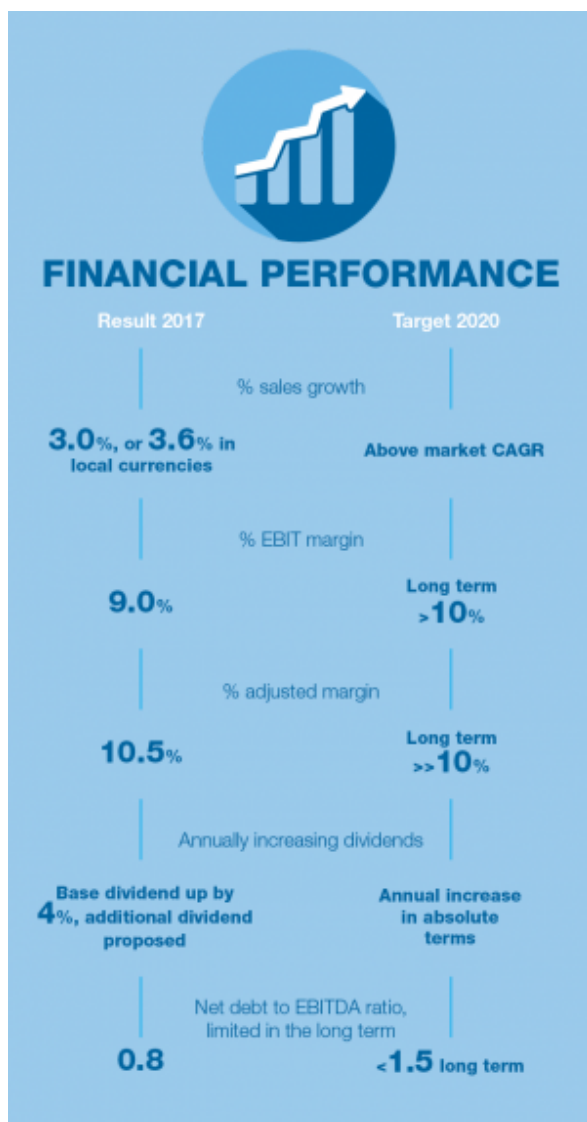
Tieto is tackling CR risks in the supply chain in multiple ways, by implementing the Code of Conduct in all new contracts, through the procurement process, as well as evaluating the risks in prioritized category groups. Going forward, Tieto continues to implement its Sustainable Supply Chain Plan for 2017–2020 and to enforce current practices and processes.

¹⁾ 1 invoice/month, minimum 12 invoices during the year and minimum 20,000 annual invoicing

Economic impact

For Tieto, economic responsibility means striving to ensure that we are profitable and hence able to create long-term sustainable value for our stakeholders and contribute to a global and sustainable economy.

Tieto's profitability remained at a healthy level in 2017 and net cash flow from operations was significantly up over the year.



Tieto's financial objectives are to grow revenue from IT services 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 2017, sales growth was over 3%, or over 4% in local currencies. It is estimated that the IT services market relevant to Tieto grew by 2–3%. Full-year operating profit (EBIT) amounted to EUR 139.2 (140.8) million, representing a margin of 9.0% (9.4). Tieto's profitability is relatively sensitive to the level of restructuring measures. Operating margin adjusted for items including restructuring costs increased to 10.5% (10.2). The proposed dividend is up by 4% to EUR 1.20 (1.15) and additionally, an extra dividend of EUR 0.20 is proposed. Dividend yield is 5.4% and the payout ratio 96%, including extra dividend. Tieto's capital structure remained strong and net debt/EBITDA was 0.8. 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. In 2017, the company continued to accelerate innovation through offering development for high-growth businesses as well as acquisitions. Tieto's offering development costs remained at the previous year's level at close to EUR 75 million, representing 5.0% of Group sales. Net payments for acquisitions totalled EUR 49.3 (37.6) million. Additionally, the company continued to invest in standardization and automation to drive improvements in productivity and quality. Full-year capital expenditure totalled EUR 50.8 (61.6) million. Capital expenditure represented 3.3% (4.1) of net sales and was mainly related to data centres.

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

	2017	2016	2015
Revenues	1 562.1	1 514.5	1 492.5
Operating costs	496.8	493.8	484.7
Employee wages and benefits	873.1	827.1	828.3
Payments to providers of funds	105.7	104.3	100.6
Payments to governments ¹⁾	21.5	22.7	22.3
Economic value retained	65.0	66.6	56.6

¹⁾ of which

	2017	2016	2015
Finland	7.2	4.2	6.0
Sweden	9.2	10.0	7.5
Norway	-0.4	0.7	1.5
Czech Republic	1.5	2.1	2.4
India	2.3	4.6	1.1
Other	1.7	1.1	3.8
Total	21.5	22.7	22.3

Our tax strategic aim is to comply with all local tax legislation and other regulations in all jurisdictions. 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 fulfills all its 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 for determining tax consequences. Tieto's general objective is to avoid uncertain tax positions. In case of uncertainty, all tax positions taken should be supportable.

Tieto's Tax Strategy is approved by the Audit and Risk Committee (ARC). Group Tax Team reports on the status of group tax issues biannually to the ARC. Tieto also has a written Tax Function Model including roles, tasks and responsibilities of Group Tax Team and other relevant internal and external stakeholders in managing taxes. External tax advisors are used, for example, in complex M&A cases. Tax risks are identified and managed as part of enterprise wide approach to risk management.

In December 2017, Tieto Corporation entered into a co-operative compliance programme with the Finnish Tax Authorities after the Large Taxpayers' Office of Finland conducted a compliance scan assurance of all tax management processes and controls including internal controls related to tax reporting at Tieto during 2017.

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 EU for research funding. In Sweden, we received EUR 0.1 million, of which the majority is for employment support and a smaller proportion from Vinnova, the Swedish Innovation Agency. In Finland, we received EUR 0.3 million from TEKES, the Finnish Funding Agency for Technology and Innovation for projects to support digitalization in various industries and the adoption of a real-time experimental business model, as well as for product development purposes in our Product Development Services unit. In addition, in India Tieto received tax relief of EUR 1.6 million because of a tax holiday.

Significant financial assistance received from government, EUR million

Austria	0.1
Sweden	0.1
Finland	0.3
India	1.6
Total	2.0

For a full description of our financial performance, please read our [Financial Review 2017](#).

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 fulfil 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 role of oversight in our external financial reporting.

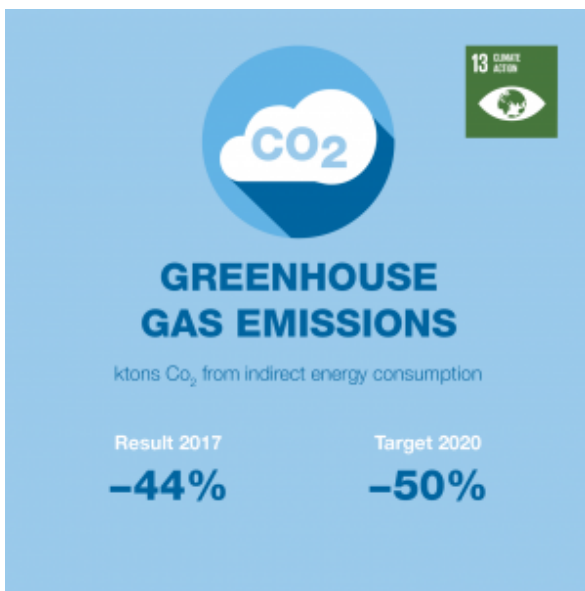
Tieto's financial reports are regularly reviewed by the Leadership Team and the Board of Directors. The follow-up is based on a thorough comparison of the actual figures with the set objectives, forecasts and previous periods. If there are deviations in the figures, the Leadership Team members are responsible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

Our Financial Handbook includes internal financial information that is directed at people involved in the financial planning and reporting or working with finance matters. The information covers a broad spectrum from the 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.

Greenhouse gas emissions

Tieto continuously examines ways to reduce the greenhouse gas emissions of its activities. Emissions are mainly generated by indirect energy consumption in data centres and offices as well as by employee travel. Tieto's goal is to reduce global CO₂ emissions of Tieto's indirect energy consumption by 50% by 2020.



Tieto's aim is to minimize the company's environmental impact throughout its value chain. Tieto supports the precautionary approach to environmental challenges, and applies the principles of continuous improvement. Tieto's environmental targets focus on increasing energy efficiency in offices and data centres as well as reducing CO₂ impact of business travel.

Highlights of the year 2017 include the decision to shift all Tieto's data centres in the Nordics to the use of green electricity, which contributes to the 2020 CO₂ reduction targets significantly. In 2017 the indirect market based CO₂ emissions from energy consumption decreased by 44 per cent.

In addition, a sustainable office concept was created for Tieto's head office in Espoo, Finland. Tieto has added roughly 6 000 sensors in the office to monitor the environment in real-time. One work desk is shared with 1.7 employees, resulting in a high usage rate of the office's multifunctional space. Energy efficiency measures have been implemented, including optimizing heat and ventilation settings and installing hundreds of LED-lamps and occupancy sensors. Remote building automation control systems ensure continuous monitoring of the system. In addition, the building runs on electricity provided by wind power and the cooling system utilizes sea water. Roughly 40 per cent of the furniture is reused and all carpet material meets the highest indoor air quality requirements. Also energy efficient ICT equipment, environmentally solid new furniture and cleaning processes are in place. [Tieto's intelligent head office was awarded the first in Finland](#) with the highest Platinum certification for Leadership in Energy and Environmental Design (LEED).

During the year, the total reported location based CO₂ emissions decreased by 4% to 28.6 ktons CO₂ (29.9). Scope 1 CO₂ emissions, generated by diesel consumption in data centres, increased by 5% to 117 tons CO₂ (112). At the same time, our Scope 2 CO₂ emissions generated by electricity consumption, cooling and heating slightly decreased by 85 tons CO₂ reaching a level of 18.9 ktons CO₂ (19.0). Scope 3 CO₂ emissions decreased by 12% to 10 ktons CO₂ (11) due to reduced business travel during the year.

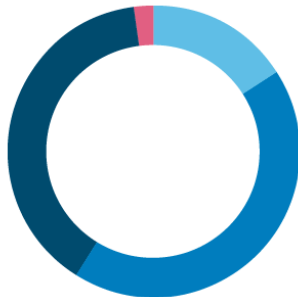
The total reported market based CO₂ emissions decreased significantly by 34% to 24 ktons CO₂ (36). Market based scope 2 emissions decreased from 25 to 14 ktons CO₂, representing a decrease of 44%.

Emission class	Unit	2015	2016	2017	% change 2016-2015	% change 2017-2016	Change 2017-2016
302-1 Energy consumption within the organization							
Diesel	litres	38 356	43 097	45 187	12 %	5 %	2 090
Electricity	kWh	93 009 445	86 693 438	82 839 401	-7 %	-4 %	-3 854 037
Cooling	kWh	18 746 350	18 996 095	19 942 201	1 %	5 %	946 106
Heating	kWh	13 802 259	14 928 279	12 544 891	8 %	-16 %	-2 383 387
Total Scope 2 energy consumption	kWh	125 558 053.33	120 617 811.23	115 326 492.90	-4 %	-4 %	-5 291 318
302-2 Energy consumption outside of the organization							
Upstream leased asset diesel consumption	litres	-	-	1 260			
Upstream leased asset energy consumption	kWh	-	-	769 293			
302-4 Reduction of energy consumption							
Energy returned to district network	kWh	15 223 000	17 031 000	15 656 200	12 %	-8 %	-1 374 800
305-1, 305-2 Total direct and indirect greenhouse gas emissions							
	tCO2						
Diesel	tCO2	100	112	117	12 %	5 %	5
Electricity (location-based)	tCO2	14 491	12 464	12 637	-14 %	1 %	173
Electricity (market-based)	tCO2	21 243	18 922	8 078	-11 %	-57 %	-10 844
Cooling	tCO2	4 002	3 858	3 954	-4 %	3 %	97
Heating	tCO2	2 386	2 695	2 340	13 %	-13 %	-355
Total GHG Scope 1	tCO2	100	112	117	12 %	5 %	5
Total GHG Scope 2 (location-based)	tCO2	20 879	19 017	18 931	-9 %	-0 %	-85
Total GHG Scope 2 (market-based)	tCO2	27 631	25 475	14 373	-8 %	-44 %	-11 102
Total GHG Scope 1, 2 (location-based)	tCO2	20 979	19 129	19 049	-9 %	-0 %	-80
Total GHG Scope 1, 2 (market-based)	tCO2	27 731	25 587	14 490	-8 %	-43 %	-11 097
305-3 Other relevant indirect greenhouse gas emissions							
	tCO2						
Business Travel - Flights	tCO2	8 455	9 690	8 520	15 %	-12 %	-1 170
Business Travel - Own cars	tCO2	1 166	1 090	1 008	-7 %	-8 %	-82
Upstream leased asset emissions tCO2	tCO2			3			3
Total GHG scope 3 emissions	tCO2	9 621	10 780	9 531	12 %	-12 %	-1 249
Total Tieto CO2 emissions (location-based)	tCO2	30 600	29 909	28 580	-2 %	-4 %	-1 329
Total Tieto CO2 emissions (market-based)	tCO2	37 352	36 367	24 021	-3 %	-34 %	-12 346

As a whole, approximately 60% (62%) of reported CO₂ emissions in 2017 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 2017, 40% (38%) of our reported CO₂ emissions related to employee travel.

Sources of reported emissions (% from total tCO₂)



- Data center 16%
- Office 43%
- Travel 39%
- Laboratories 2%

To reduce greenhouse gas emissions caused by business operations, Tieto has set energy consumption targets, as well as travel cost targets. The annual goal is to reduce indirect energy consumption in operations by 3.5% on the group level. In 2017, the indirect energy consumption decreased by 4% (4%) compared to the previous year, reaching 115 326 (120 618) MWh. Regarding travel costs, Tieto's goal in 2017 was to keep travel costs flat. However, during the year travel costs decreased by 6% (+6 %), which indicates a change in employee travel habits with fewer trips, but longer stays. Additionally, there was a downhill trend in flight CO₂ emissions and own car usage. Tieto is constantly trying to find new and innovative ways to support smart travel and reduce the environmental impact of business commuting.

Tieto's Travel Rule encourages eliminating unnecessary travel. The company also encourages employees to use internal online conferencing and various digital collaboration platforms.

Tieto's Environmental Rule defines the company's approach to managing

Tieto environmental impact. Tieto's environmental management system (EMS) is ISO 14001 certified. In line with this rule, Tieto strives to reduce direct and indirect energy consumption in offices and data centres through energy-efficient measures and relocating to BREEAM or LEED certified buildings when upgrading facilities. In 2017 54% of Tieto employees were located in environmentally certified office buildings.

The amount of data transferred and stored is becoming increasingly immense, creating a growing demand for modern, secure and sustainable data centre environments. In its data centers, Tieto works continuously to improve energy efficiency in its operations, e.g. by optimizing cooling capacity, utilizing intelligent airflow management and deploying low energy computing solutions. Tieto also recycles the excess heat generated by its data centres back to society. Tieto has been recognized for its new-generation data centre in Espoo, Finland, where the excess heat is used in the local district heating network. In Stockholm, a similar solution is used to enable warming the facilities and the

nearby housing area. Meanwhile, the data centre in Norway - located deep inside a mountain in Stavanger - is run with renewable energy and cooled by cold water from the adjacent fjord.

In 2017 the recycled heat energy from data centres was equal to roughly the annual energy consumption of 800 detached houses.

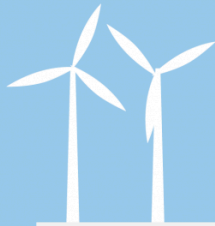
ENERGY AND GHG EMISSION HIGHLIGHTS



INDIRECT ENERGY

14 373
tCO₂
CHANGE
-44%

115 326
Mwh
CHANGE
-4%



12 346 tCO₂
REDUCTION

=

72 milj. km
BY CAR

15.6

tCO₂ / MEUR revenue

CHANGE
-36%

TIETO'S TOTAL EMISSIONS

24 021

tCO₂

CHANGE
-34%



TRAVELLING

9 528
tCO₂

CHANGE
-12%

Societal engagements

Tieto wants to be an active corporate citizen in the societies we operate in. Through our societal engagements we aim to fulfil our corporate purpose: creating value for life.

Tieto engages in long term societal projects with a number of established local partners. During 2017, Tieto continued its cooperation with My Dream Now in Sweden, as well as the Identity Foundation and Lila Poonawalla Foundation in India – activities supporting the educational needs and aspirations of young people with diverse backgrounds. In 2018, our work in engaging youngsters to think about their future work life continues by bringing 100 school classes to the Heureka science centre in Finland. Under the same theme, work with The Children and Youth Foundation in Finland will also continue.

Tieto's societal projects are aligned with the business strategy and purpose – creating value for life. We believe that the future lies in the youth of today and therefore we want to focus on investing in young people and their education, and in this way support a good start for a fulfilling life.

Tieto's Corporate Responsibility (CR) steering group, authorized by the Board of Directors is reviewing societal engagements on an annual basis. Selections for partnerships are based on community-needs assessments made in cooperation with local business operations.

Through our societal engagements we also want to activate Tieto employees to take part in these projects and in doing good for the society around us.

IN 2017, TIETO'S KEY SOCIETAL ENGAGEMENTS INCLUDED:

My Dream Now helps children pursue their future dreams

[My Dream Now](#) (Sweden) is an organization focusing on building a bridge between companies and schools with the aim of inspiring young students to fulfil their future dreams. Tieto has engaged in My Dream Now operations in various ways for several years. For example, Tieto employees have been volunteering as class coaches and Tieto has welcomed students for study visits and to conduct job shadowing to inspire and increase their understanding of daily working life.

Identity Foundation helps underprivileged children

Founded in 2003, [Identity Foundation](#) is a charitable trust in Pune, India, working with underprivileged children. We have supported Identity Foundation's Mobile Learning and Infotainment Centre (MLIC) buses since 2007. In the two mobile learning and infotainment buses, underprivileged children, such as street children, can improve their literacy as well as life skills education. The MLICs also serve as information facilities by exposing children to positive entertainment and useful information.

In 2017, 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 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. Since its inception in 1996, over 17 765 scholarships have been granted to 7 396 deserving girls. The foundation gives scholarships to the girls from Pune, Amaravati and Wardha districts. In Pune, the district LPF supports girls from school level until post-graduation. In Amaravati and Wardha districts, scholarships are given for undergraduate studies. 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.

Together – for Finnish society

Finland became an independent state on 6 December 1917 and turned 100 years old in 2017. Founded in 1968, Tieto has been part of almost half of the journey in building today's digital society of Finland.

The over-arching theme for the Finnish anniversary year was 'Together' and the programme was designed together with participating corporations and organizations. During the year, Tieto participated by engaging children and youth to discuss their future dreams together with known YouTube stars as well as participation in events organized for teachers and student counsellors to discuss the future of work and needed skills.

Uplift Mutuals facilitates easy access to quality health care at reasonable cost

Uplift Mutuals is a local non-profit organization, which has emerged out of the need for access to quality health care at a reasonable cost. Under Uplift Mutuals' model, low-income families in India can share their health risks and get access to mutual micro insurance for financing their medical treatment and hospital visits. Besides health insurance, the organization also provides medical advice via telephone, and has even employed doctors who provide their services to patients free of charge.

Since 2012, Uplift Mutuals has been using UTTAM, a solution developed and provided by Tieto on a pro-bono basis that replaces the often time-consuming manual work to settle health insurance claims. 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 medical treatment, UTTAM also provides an easy-to-use process for expanding the micro insurance for health programmes to cover more communities. During 2017, Tieto has launched UTTAM on mobile bringing transparency to the members and 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.

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.

About sustainability reporting

The non-financial data and information included in Tieto's Annual Report 2017 are prepared in accordance with the core option of the GRI Standards. The disclosures focus on the sustainability topic that are considered to be the most material regarding Tieto's economic, social and environmental performance.

Tieto's material sustainability areas were identified during a materiality analysis in 2016–2017. These areas are the focus of our Corporate Responsibility 2020 plan.

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

Unless otherwise stated, all information and data pertain to activities from 1 January to 31 December 2017. The regional data is divided between HR and financial data due to system restrictions.

Unless otherwise stated, Tieto's energy reporting and corresponding Scope 1 and 2 emissions cover all operating sites (offices, laboratories and data centres). The scope of the energy data collection was aligned with our Environmental Management System; data is collected from data centres, laboratories and offices with 50 employees or more. The energy consumption of offices with <50 employees was estimated based on our global average values with a 10% safety margin. The original data sources are internal IT systems and invoices from utility providers.

The scope 2 CO₂ emissions were restated as a result of separating the energy fed from the data centres back into the district heat network. It is now reported under avoided energy and thus aligned with the GHG protocol.

Energy and emission calculations follow the Greenhouse Gas Protocol, and emissions are reported as CO₂ emissions. Some calculations are manually conducted. The source of the indirect, location-based energy emission factors is the International Energy Agency (IEA). The base year

emissions for the scope 2 reporting were updated using three-year average factors for all years. The sources for indirect, market-based energy emission factors are energy companies for the actual factors. Residual mix factors are used for the EU and the IEA factors are used for non-EU countries with no actual market-based factors. For direct energy, DEFRA's emission factor is applied.

The scope 3 business travel related CO₂ emissions include flights and the use of own cars. The CO₂ factors used are DEFRA for flights and VTT Lipasto for car use. The data was collected from the company IT system and service providers. Locations with major operations and a significant amount of travel are within this scope.

In addition, energy consumption from leased assets are reported under the scope 3 emissions for the first time. The CO₂ factor used for electricity consumption is market-based.

The base year for the Scope 1–3 environmental calculations is 2016, but a three-year trend extending to 2015 is reported. In the report, the metric ton/UK tonne equivalent to 1 000 kilograms is stated solely as a ton.

The CO₂ calculation model for Sustainable IT services was renewed. The baseline for the new model was chosen to be 2017. The new model is not comparable with previously reported CO₂ avoidance.

Unless otherwise stated, our workforce related figures in the Sustainability section of the report are based on the GRI Standards. The numbers include

joint ventures, hence differing from the headcount in the Financial section. The data sources are company systems which provide data on full-time, part-time, permanent and temporary employees.

An independent third party, PricewaterhouseCoopers Oy, have provided their assurance on the corporate responsibility information disclosed in Tieto's Annual Report 2017. The scope of the assured information is indicated in the independent practitioner's assurance report. In our view, third-party, independent 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 2016](#) was published on 1 March 2017.

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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 Sustainability disclosures for the reporting period 1 January to 31 December 2017, disclosed in Tieto Annual Report 2017 under "the Sustainability" section. In terms of the Company's GRI Standards reporting and GRI Content Index, the scope of the assurance has covered economic, social and environmental Sustainability disclosures listed within the Topic-specific Disclosures as well as General Disclosures 102-8 and 102-41 (hereinafter "Sustainability Information").

Management's responsibility

The Management of Tieto Corporation is responsible for preparing the Sustainability Information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the GRI Sustainability Reporting Standards 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 Sustainability 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 Sustainability 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 "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 Sustainability 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 Sustainability Information. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the Sustainability Information.

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

- Interviewing senior management of the Company.
- Visiting the Company's Head Office in Finland.
- Conducting one video interview with one Data Center in Finland.
- Interviewing employees responsible for collecting and reporting the Sustainability 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 Sustainability Information for the reporting period ended 31 December 2017 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, 23 February 2018

PricewaterhouseCoopers Oy

Sirpa Juutinen
Partner
Sustainability & Climate Change

GRI content index table

Disclosure	Disclosure Title	Link and Reference	Tieto area name and number	UNGC	OECD
GRI 102: GENERAL DISCLOSURES 2016					
ORGANIZATIONAL PROFILE					
102-1	Name of the organisation.	Tieto in brief		COP report profile	
102-2	Activities, brands, products and services	Tieto in brief		COP report profile	
102-3	Location of headquarters	Tieto in brief		COP report profile	
102-4	Location of operations	Tieto in brief, Markets		COP report profile	
102-5	Ownership and legal form	Tieto in brief		COP report profile	
102-6	Markets served.	Markets		COP report profile	
102-7	Scale of the organisation	Tieto in brief, Markets		COP report profile	
102-8	Information on employees and other workers	Our people		Principle 6 COP report profile	
102-9	Supply chain	Sustainable supply chain		Criteria 2 COP report profile	
102-10	Significant changes to the organization and its supply chain	Operating model, Shares and shareholders, Sustainable supply chain		COP report profile	
102-11	Precautionary principle or approach	Our approach to sustainability		Criteria 2	
102-12	External initiatives	Our approach to sustainability			
102-13	Memberships of associations.	Our approach to sustainability			
STRATEGY					
102-14	Statement from senior decision-maker	CEO message		Criteria 19	x
102-15	Key impacts, risks and opportunities	NFI, Corporate Responsibility 2020 plan			
ETHICS AND INTEGRITY					
102-16	Values, principles, standards, and norms of behavior	Managing CR		Criteria 12-14 Principle 10	
GOVERNANCE					
102-18	Governance structure	Corporate governance statement		Criteria 20	
102-20	Executive-level responsibility for economic, environmental and social topics	Managing CR		Criteria 1, 20	
102-21	Consulting stakeholders on economic, environmental and social topics	Corporate governance statement, Stakeholder dialogue, Managing CR, Customer experience		Criteria 1, 20	
102-23	Chair of the highest governance body	Corporate governance statement		Criteria 1, 20	
102-32	Highest governance body's role in sustainability	Managing CR, Independent assurance report		Criteria 1, 20	
STAKEHOLDER ENGAGEMENT					
102-40	List of stakeholder groups	Stakeholder dialogue		Criteria 21	
102-41	Collective bargaining agreements	Our people		COP report profile	x
102-42	Identifying and selecting stakeholders	Stakeholder dialogue		Criteria 21	
102-43	Approach to stakeholder engagement.	Stakeholder dialogue		Criteria 21	

102-44	Key topics and concerns raised	Stakeholder dialogue, Customer experience			Criteria 21	
REPORTING PRACTICE						
102-45	Entities included in the consolidated financial statements	About sustainability reporting				
102-46	Defining report content and topic boundaries	Materiality analysis				
102-47	List of material topics	Materiality analysis				
102-48	Restatements of information	About sustainability reporting				
102-49	Changes in reporting	About sustainability reporting				
102-50	Reporting period.	About sustainability reporting			COP report profile	
102-51	Date of most recent previous report.	About sustainability reporting			COP report profile	
102-52	Reporting cycle.	About sustainability reporting			COP report profile	
102-53	Contact point for the report.	About sustainability reporting			COP report profile	
102-54	Claims for reporting in accordance with the GRI Standards	About sustainability reporting			COP report profile	
102-55	GRI Content Index	GRI content index				
102-56	External assurance	Independent assurance report			COP assurance	
GRI 103: MANAGEMENT APPROACH 2016						
103-1	Explanation for the material topic and its boundary	Corporate Responsibility 2020 Plan, Materiality analysis			Criteria 15-18, Principle 1-9	x
103-2	The management approach and its components	Corporate Responsibility 2020 Plan, Materiality analysis			Criteria 15-18, Principle 1-9	x
103-3	Evaluation of the management approach	Corporate Responsibility 2020 Plan, Materiality analysis			Criteria 15-18, Principle 1-9	
MATERIAL TOPICS						
Disclosure	Disclosure Title	Link and Reference	Omission	Tieto area name and number	UNGC	OECD
GRI 200: ECONOMIC STANDARD SERIES						
GRI 201: ECONOMIC PERFORMANCE 2016						
201-1	Direct economic value generated and distributed.	Economic impact	Community investments not reported as it is not significant	8: Financial performance	Criteria 9-11	x
201-4	Financial assistance received from government.	Economic impact		8: Financial performance	Criteria 9-11	x
GRI 205: ANTI-CORRUPTION 2016						
205-1	Operations assessed for risks related to corruption	Ethical culture		1: Ethical culture	Criteria 12-14 Principle 10	x
205-3	Confirmed incidents of corruption and actions taken	Ethical culture		1: Ethical culture	Criteria 12-14 Principle 10	x
GRI 300: ENVIRONMENTAL STANDARD SERIES						
GRI 302: ENERGY 2016						
302-1	Energy consumption within the organization.	Greenhouse gas emissions		4: Greenhouse gas emissions	Criteria 9-11 Principle 7	x
GRI 305: EMISSIONS 2016						
305-1	Direct (Scope 1) GHG emissions	Greenhouse gas emissions		4: Greenhouse gas emissions	Criteria 9-11 Principle 7	x
305-2	Energy indirect (Scope 2) GHG emissions	Greenhouse gas emissions		4: Greenhouse gas emissions	Criteria 9-11 Principle 7	x
305-3	Other indirect (Scope 3) GHG emissions	Greenhouse gas emissions		4: Greenhouse gas emissions	Criteria 2, 9-11 Principle 7	x
Tieto 4.1	Reduction of CO2 emissions from indirect energy consumption	Greenhouse gas emissions		4: Greenhouse gas emissions	Criteria 9-11 Principle 7	x

GRI 400: SOCIAL STANDARD SERIES						
GRI 401: 2016 MATERIAL TOPIC: EMPLOYMENT						
401-1	Total number and rates of new employee hires and employee turnover.	Our people			Principle 6	
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016						
405-1	Diversity of governance bodies and employees	Equal opportunities		7: Equal opportunities	Principle 6	
Tieto 7.1	Code of conduct policy, Anti-corruption rule training coverage.	Equal opportunities		7: Equal opportunities	Principle 6	
GRI 406: NON-DISCRIMINATION 2016						
406-1	Incidents of discrimination and corrective actions taken	Equal opportunities		7: Equal opportunities	Criteria 3-5 Principle 6	x
GRI 418: CUSTOMER PRIVACY 2016						
418-1	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						
Disclosure	Disclosure Title	Link and Reference	Omission	Tieto area name and number	UNGC	OECD
SUSTAINABLE IT SOLUTIONS						
Tieto 5.1	Estimated avoided emissions from the use of IT services	Sustainable IT		5: Sustainable IT Solutions	Criteria 15-18 Principle 9	x
SUSTAINABLE SUPPLY CHAIN						
Tieto 2.1	% ratio of new or renewed suppliers agreeing to Tieto's Supplier Code of Conduct	Sustainable supply chain		2: Sustainable Supply chain		
EMPLOYEE EXPERIENCE						
Tieto 6.1	Employee engagement index	Employee experience		6: Employee experience		
Tieto 6.2	% of employees being always or often stressed and not being able to recover	Employee experience		6: Employee experience		
CUSTOMER EXPERIENCE						
Tieto 9.1	Customer experience index CXI	Customer experience		9: Customer experience		
Tieto 9.2	Net promoter score NPS-r	Customer experience		9: Customer experience		
ETHICAL CULTURE						
Tieto 9.1	Code of conduct policy, Anti-corruption rule training coverage.	Ethical culture		1: Ethical culture	Criteria 12-14 Principle 10	x

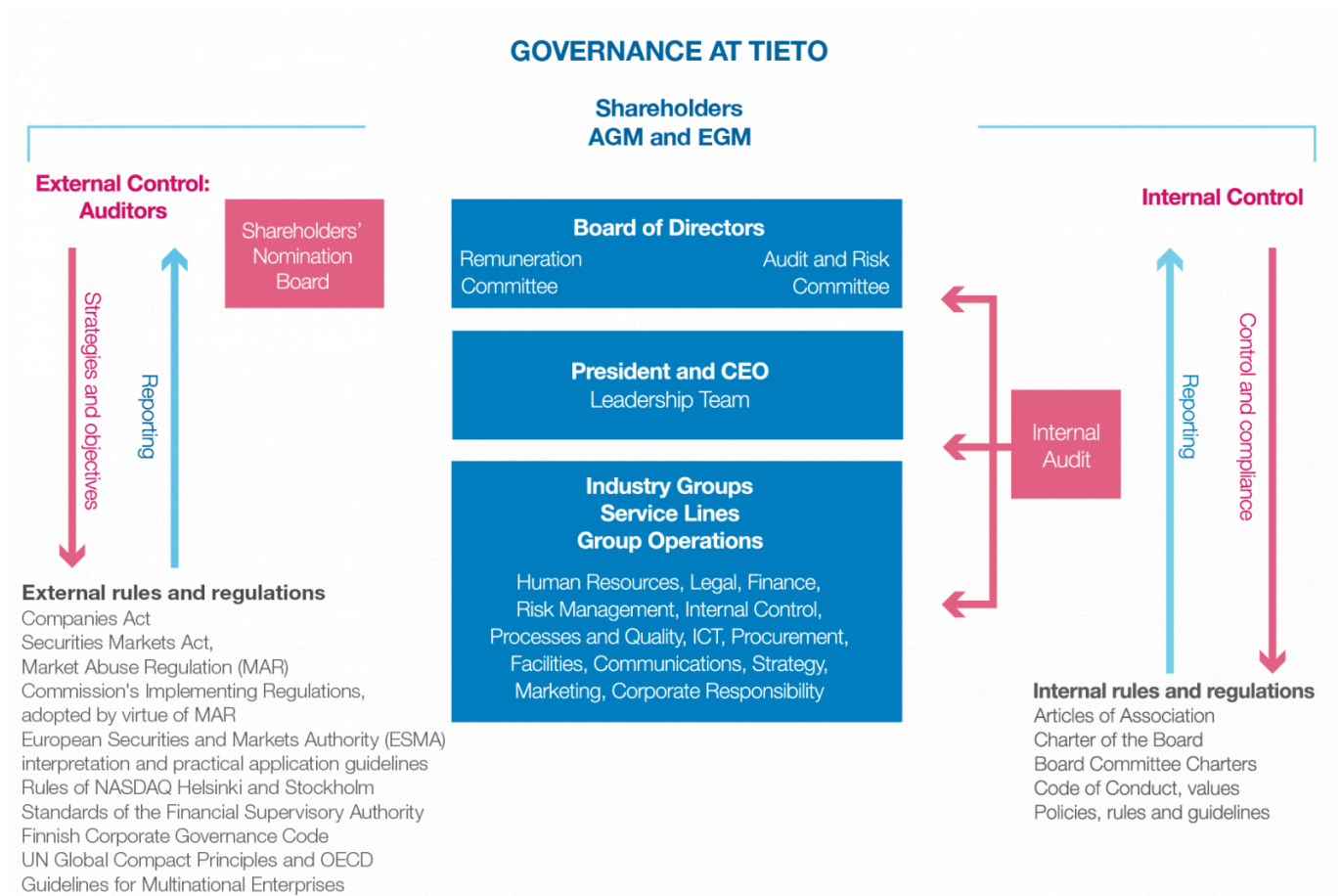
Corporate Governance Statement

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 in [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 2017.

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.



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 2018 and previous meetings, shareholders and participation possibilities, please visit the company's [website](#).

Tieto's AGM 2017

- In 2017, the AGM convened on 23 March at Hotel Clarion in Helsinki, Finland. Altogether 532 shareholders and 47 792 617 shares (64.5% of the total outstanding shares) were represented at the meeting.
- No Extraordinary General Meetings were held in 2017.

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 2018 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:

Antti Mäkinen
Main occupation: Managing Director, Solidium Oy
Born: 1961
Nationality: Finnish
Education: LL.M.

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:

Kurt Jofs

The Nomination Board decided that Martin Oliw shall act as Chairman. The SNB convened 6 times and provided Tieto's Board of Directors on 15 February 2018 with its proposals for the AGM 2018. The SNB proposes to the Annual General Meeting that the Board of Directors shall have seven members and that the current Board members Kurt Jofs, Harri-Pekka Kaukonen, Timo Ahopelto, Johanna Lamminen, Endre Rangnes and Jonas Synnergren be re-elected. In addition, Liselotte Hägertz Engstam is proposed to be elected as a new Board member. Sari Pajari and Jonas Wiström have announced that they are not available for re-election. The Shareholders' Nomination Board proposes that Kurt Jofs shall be re-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 be annual fees and remain unchanged as follows: EUR 91 000 to the Chairman, EUR 55 000 to the Deputy Chairman and EUR 36 000 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 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 1 January–31 March 2018. 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 has taken steps to ensure that the principles have been 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 2017

Name	Born	Nationality	Education	Main occupation
Kurt Jofs (Chairman)	1958	Swedish	MSc. (Eng.)	Entrepreneur, investor and Board member
Harri-Pekka Kaukonen (Deputy Chairman)	1963	Finnish	DSc. (Tech.)	Professional Board member
Timo Ahopelto	1975	Finnish	MSc. (Tech.)	Entrepreneur, investor and Board member
Johanna Lamminen	1966	Finnish	DSc. (Tech.), MBA	CEO, Gasum Ltd
Sari Pajari	1968	Finnish	MSc. (Eng.)	SVP, Sales and Marketing, Metsä Board Oyj
Endre Rangnes	1959	Norwegian	BBA (Econ.)	Professional Board member
Jonas Synnergren	1977	Swedish	MSc. (Econ.)	Partner, Cevian Capital AB
Jonas Wiström	1960	Swedish	MSc. (Tech.)	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 2017

	Member since	Independent	Board	Audit & Risk Committee	Remuneration Committee	Temporary committees
Kurt Jofs	2010	Yes	17/17	1/1	4/4	7/7
Harri-Pekka Kaukonen	2016	Yes	17/17	5/5	2/2	1/7, 1/1
Timo Ahopelto ¹⁾	2017	No	14/15	5/5	-	2/7, 2/2
Johanna Lamminen	2016	Yes	17/17	5/6	-	
Sari Pajari	2012	Yes	16/17	-	5/6	
Endre Rangnes	2014	Yes	15/17	-	6/6	2/2
Jonas Synnergren	2012	No	17/17	6/6	-	7/7, 1/1, 2/2
Jonas Wiström ¹⁾	2017	Yes	13/15	-	3/4	1/1
Markku Pohjola ²⁾	2009	Yes	2/2	-	2/2	1/1
Lars Wollung ³⁾	2015	Yes	1/1	1/1	-	
Esa Koskinen	2014	-	17/17	-	-	
Anders Palkint	2014	-	15/17	-	-	
Robert Spinelli (deputy of Anders Palkint)			1/17			

¹⁾ Board member as from 23 March 2017.

²⁾ Board chairman until 23 March 2017.

³⁾ Board member until 1 March 2017.

All Board members of Tieto are independent of the company and six 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 2017

- The Board convened 17 times in 2017 and the average attendance was 96.6%.
- 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 2017. 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 2017, 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:

- Kurt Jofs (Chairman)
- Sari Pajari
- Endre Rangnes
- Jonas Wiström

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 2017

- The committee convened 6 times in 2017 and the average attendance was 93%
- In addition to the normal responsibility within the scope of its Charter, the committee concentrated on reviewing, and developing remuneration of the company. The committee also followed the functioning of short and long-term incentive plans to ensure that they supported the achievement of the objectives.

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 2017, all committee members were non-executive directors who were independent of the company and two 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

- Harri-Pekka Kaukonen (Chairman)
- Timo Ahopelto
- Johanna Lamminen
- Jonas Synnergren

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 2017

- The committee convened 6 times in 2017 and average attendance was 97.2%.
- In addition to its regular agenda items, the committee focused on project and delivery management and quality issues as well as following up the implementation work of changes in regulation (e.g. IFRS 15, reporting of non-financial information and EU General Data Protection Regulation).

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 2017

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

Ari Järvelä

Executive Vice President, New Data-Driven
Businesses
Born: 1969
Nationality: Finnish
Education: MSc. (Eng.)
Joined the company in 2001

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

Tom Leskinen

Executive Vice President, Product Development
Services
Born: 1966
Nationality: Finnish
Education: LicSc. (Tech.)
Joined the company in 2013

Cristina Petrescu

Executive Vice President, Public, Healthcare &
Welfare
Born: 1968
Nationality: Swedish
Education: MSc. (Computer Science)
Joined the company in 2002

Christian Segersven

Executive Vice President, Financial Services
Born: 1975
Nationality: Finnish
Education: MSc. (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 specified 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. In 2017, the company continued a project to improve onboarding practices in the area of third party risk management.

Continuous development of the risk framework

During 2017 the main improvements were a complete upgrade of the Tieto GRC (Governance Risk and Compliance) platform and implementation of EU General Data Protection Regulation (GDPR) privacy risk assessment to the GRC platform. In addition, Tieto implemented and launched a completely new Security Incident management reporting and handling module as part of the GRC framework and started to design a new business continuity module, to endorse the risk management and internal control work in the business units.

The development of the risk management framework is carried out in close cooperation with Risk Coaches, Security Managers, Quality Partners and persons responsible for Privacy in the units, and approved by the 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 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.

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 escalations, fraud attempts, misconducts 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

Tieto has four risk categories and they are: strategic, operational, financial and compliance risks.

Strategic risks are related to market volatility, IT market transformation to new technologies (including the rapid digitalization and automatization 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 the corporate GRC platform, 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, which are defined in the corporate decision making and authority policy. 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 means of improving competitiveness and reducing the risk.

Service continuity

Close to 100% availability is the basis of trust among customers and society. Thus, business continuity planning is a high priority in Tieto's operational management in order to ensure that redundancy and fault tolerance are at the appropriate level.

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, a specific risk management framework is used for better understanding of customer bidding and end-to-end risks, 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 34](#) 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 insiders ³⁾. Tieto however discloses 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⁾ The situation as at 2 July 2016 described at: 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 2018 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 2018. The firm of authorized public accountants PricewaterhouseCoopers Oy has notified that KHT Tomi Hyryläinen, Authorized Public Accountant, will act as the auditor with principal responsibility.

Auditing

The AGM 2017 re-elected the firm of authorized public accountants PricewaterhouseCoopers Oy as the company's auditor for the financial year 2017. PricewaterhouseCoopers Oy notified the company that authorized public accountant Tomi Hyryläinen acts as chief auditor. In 2017, Tieto Group paid the auditors a total of EUR 0.8 (0.8) million in audit fees, of which EUR 0.8 (0.8) million to the Group's auditor PricewaterhouseCoopers Oy, and a total of EUR 0.3 (0.9) million for other services, of which EUR 0.3 (0.8) 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 2017, the annual remuneration of the Board of Directors is the following:

- EUR 91 000 to the Chairman,
- EUR 55 000 to the Deputy Chairman and
- EUR 36 000 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 the 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 2017 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 2017 ⁴⁾

	Annual remuneration		Meeting based, EUR
	EUR (60%) ⁵⁾	Shares (40%) ⁶⁾	
Kurt Jofs (Chairman and RC Chairman) ⁷⁾	54 609	1 266	22 400
Harri-Pekka Kaukonen (Deputy Chairman and ARC Chairman)	33 010	765	20 000
Timo Ahopelto ⁹⁾	21 628	500	17 600
Johanna Lamminen	21 628	500	16 800
Sari Pajari	21 628	500	16 000
Endre Rangnes	21 628	500	20 000
Jonas Synnergren	21 628	500	25 600
Jonas Wiström ⁹⁾	21 628	500	12 800
Markku Pohjola (former Board and RC Chairman) ⁸⁾	-	-	3 200
Lars Wollung ¹⁰⁾			1 600
In total	EUR 217 385	5 031 shares	EUR 156 000

Board of Directors' shareholdings in Tieto ¹¹⁾

Name	Dec 2017	At 31 Dec 2016
Kurt Jofs (Chairman, RC Chairman) ⁷⁾	13 711	12 445
Harri-Pekka Kaukonen (Deputy Chairman and ARC Chairman)	1 343	578
Timo Ahopelto ⁹⁾	500	N/A
Johanna Lamminen	1 078	578
Sari Pajari	4 096	3 596
Endre Rangnes	2 353	1 853
Jonas Synnergren	4 096	3 596
Jonas Wiström ⁹⁾	500	N/A
Markku Pohjola (former Board and RC Chairman) ⁸⁾	N/A	27 391
Lars Wollung ¹⁰⁾	N/A	1 219

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

⁵⁾ Gross compensation before taxes.

⁶⁾ Shares were purchased and delivered in April 2017.

⁷⁾ Chairman as from 23 March 2017.

⁸⁾ Board Chairman until 23 March 2017.

⁹⁾ Board member as from 23 March 2017.

¹⁰⁾ Board member until 1 March 2017.

¹¹⁾ Corporations over which the Board members exercise control did not have shares or share-based rights on 31 December 2017.

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 40% 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 75%. 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 were followed by a restriction period of two years for the executive management or one year for the other participants, during which the earned shares were not disposable. In February 2017 the final restriction period ended.

Long-Term Incentive Plan (LTI) 2015–2017 covers Leadership Team members and approximately 140 key employees. The plan consists of Performance Shares and Restricted Shares. The performance period is three years from 1 January 2015 to 31 December 2017. If the set performance metrics and other requirements are met the shares will be delivered to the participants in spring 2018.

Long-Term Incentive Plan (LTI) 2016–2018 covers Leadership Team members and approximately 140 key employees. The plan consists of Performance Shares and Restricted Shares. The performance period is three years from 1 January 2016 to 31 December 2018. If the set performance metrics and other requirements are met the shares will be delivered to the participants in spring 2019.

Long-Term Incentive Plan (LTI) 2017–2019 covers Leadership Team members and approximately 140 key employees. The plan consists of Performance Shares and Restricted Shares. The performance period is three years from 1 January 2017 to 31 December 2019. If the set performance metrics and other requirements are met the shares will be delivered to the participants in spring 2020.

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 2017 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 programmes. 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.

Currently, all 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⁾ Last fund-based pension scheme was closed in August 2017.

President and CEO**Kimmo Alkio**

Salary	EUR 600 000/year (EUR 50 000/month) including car benefit. Total EUR 600 000.
Benefits	EUR 3 235
Bonus 2017	Not yet determined (EUR 179 053 paid in 2017 for performance in 2016).
	Target 50% of base salary based on the Group's external revenue and profit, PDS external revenue and profit and strategy implementation when achievements meet the targets. Maximum 100% of base salary based on the Group's external revenue and profit, PDS external revenue and profit and strategy implementation when achievements exceed the targets.
	Weighting of the reward factors <ul style="list-style-type: none"> • Profit of the company and PDS 30% • External revenue of the company and PDS 40% • Strategy implementation 30%
Basis of bonus	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.
	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.
Additional success-based incentive	
Long-Term Incentive Programme 2012–2014	A total of 12 742 shares were released from lock-up in February 2017 according to the terms of the programme.
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. In addition a cash portion was paid corresponding to a value of 4 944 shares. The total value of paid gross reward was EUR 240 474.
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 504 012. ¹²⁾
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 and 5 000 Restricted Shares. The performance period of the plan is 2016-2018. The fair value of these allocations amounts to EUR 337 740. ¹²⁾
Long-Term Incentive Plan 2017-2019	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 2017-2019. The fair value of these allocations amounts to EUR 410 484. ¹²⁾
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 399 081
Retirement age	63
	In 2017, EUR 277 593.
Pension expenditure	In addition to the statutory pension provision: a defined contribution pension plan where the expenditure is 23% of the annual base salary. ¹³⁾
	If the agreement is terminated by Tieto, the period of notice is twelve months.
Period of notice	If the agreement is terminated by the President and CEO, the period of notice is six months.
	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.
	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.
Severance payment	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.

¹²⁾ The fair market value for the Long-term Incentive Plans is calculated using the latest performance estimates and the value of the Tieto share on 31 December 2017, EUR 25.98.

¹³⁾ 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.

Remuneration of Leadership Team members

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

Leadership Team (excluding the President and CEO)

Total salaries	EUR 2 789 836
Total benefits	EUR 122 444
Special payments	EUR 477 137 (Severance pay)
Total bonuses 2017	Not yet determined (EUR 420 914 paid in 2017 for performance in 2016).
	Target 40% of base salary, maximum 75% of the base salary. The purpose of the bonus is to reward for company performance and individual performance. These two form the overall performance evaluation (OPE). OPE for each LT member is confirmed by the Board.
	CFO: in addition to individual performance measurement, the bonus is based on company performance, measured by the following factors
	<ul style="list-style-type: none"> • Profit of the company • External revenue • Cash flow improvement
	Other LT members: in addition to individual performance measurement, the bonus is based on
	<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)
Basis of bonus	
Long-Term Incentive Programme 2012–2014	A total of 20 776 shares were released from lock-up in February 2017 according to the terms of the programme
Share-based reward plan	January 2017, a total of 8 731 shares were transferred to the Leadership Team members based on the plan run until the end of 2016. In addition a cash portion was paid, corresponding to a value of 10 269 shares. The total value paid gross reward amounted to EUR 496 632.
Long-Term Incentive Plan 2015–2017	Leadership team members are entitled to 80 100 Performance Shares if the maximum levels of the performance metrics are met and 12 500 Restricted Shares. Performance period of the plan is 2015–2017. The fair value of these allocations is EUR 1 334 034. ¹⁴⁾
Long-Term Incentive Plan 2016–2018	Leadership Team members are entitled to 90 000 Performance Shares if the maximum levels of the performance metrics are met and 10 000 Restricted Shares. The performance period of the plan is 2016–2018. The fair value of these allocations is EUR 1 019 715. ¹⁴⁾
Long-Term Incentive Plan 2017–2019	Leadership Team members are entitled to 92 000 Performance Shares if the maximum levels of the performance metrics are met and 11 000 Restricted Shares. The performance period of the plan is 2017–2019. The fair value of these allocations is EUR 1 270 942. ¹⁴⁾
Expenditures related to share-based incentives	EUR 1 102 133
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.
	In 2017, in total EUR 1 058 548.
	CFO: In addition to the statutory pension provision: a defined contribution pension plan where the expenditure is 23% of the annual base salary. 15)
	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. 15)
Pension expenditure	The company provides Leadership Team members based outside Finland with individual pension plans according to local practices.
Severance payment	Various terms, amounts corresponding to the periods of notice.

¹⁴⁾ The fair market value for Long-term Incentive Plan 2015–2017, Long-term Incentive Plan 2016–2018 and Long-term Incentive Plan 2017–2019 is calculated using the latest performance estimates and the value of the Tieto share on 31 December 2017, EUR 25.98.

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.

Shareholdings of the Leadership Team ²⁰⁾

	Shares at 31 Dec 2017	Shares at 31 Dec 2016	Options at 31 Dec 2017	Options at 31 Dec 2016
Kimmo Alkio	32 971	28 715	0	0
Håkan Dahlström	3 042	3 042	0	0
Lasse Heinonen	17 767	15 778	0	0
Per Johanson	N/A	4 465	N/A	0
Ari Järvelä	6 945	4 956	0	0
Ari Karpainen ²¹⁾	N/A	10 504	N/A	0
Satu Kiiskinen	5 366	3 398	0	0
Katariina Kravi	5 476	3 550	0	0
Tom Leskinen	100	100	0	0
Cristina Petrescu	702	702	0	0
Christian Segersven ²²⁾	0	N/A	0	N/A

The compensation of the whole Leadership Team in 2017 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 2017. 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.

²¹⁾ Leadership Team Member until 31 August 2017.

²²⁾ Leadership Team Member as from 1 October 2017.

Letter from the Chairman of the Remuneration Committee

Dear Shareholder,

We launched our new strategy and business structure in spring 2016. During 2017, we continued strategy implementation with the view of becoming customers' first choice for business renewal as the leading Nordic software and services company. Building on the solid achievements of past years, we will continue to accelerate innovation and growth.

Our rewarding approach

The aim of Tieto's reward practices is to ensure that we can hire and retain top talent and offer market competitive total compensation. Also, we want to reward our employees for high performance in achieving both individual and company objectives. Tieto rewarding structures are designed to generate attraction and motivation which impact employee satisfaction and engagement. Satisfaction and engagement link directly to business results and performance.

Focus areas and remuneration activities in 2017

The Remuneration Committee agenda for 2017 focused on ensuring that the reward practices are market competitive and thus support strategy execution. Large global players, smaller local companies and start-ups with innovative niche solutions attract skilled candidates and Tieto is facing increased competition for talent. The short-term incentive levels for senior management were revised to ensure remuneration market competitiveness in global environment. The remuneration structure of President and CEO remained unchanged during 2017.

At the beginning of 2017, the Remuneration Committee approved the incentive payouts for the financial year 2016. Tieto paid out a total of EUR 18.7 million to the management and employees as short-term incentives and bonuses. The CEO and Leadership Team members received total of EUR 589 611 as paid incentives.

The share delivery from Shared-based Reward plan took place in January 2017. The President and CEO received 4 256 net shares and other Leadership Team members in total 10 760 net shares.

A new Long-Term Incentive Plan for 2017–2019 was approved by the Board of Directors in early 2017, 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 Tieto management, which directly links the paid compensation to the company's success. For the 2017–2019 plan, the performance metrics were agreed to be earnings per share (30%), total shareholder return (20%) and growth (50%).

Remuneration for 2017

The short-term incentive plan for 2017 to the President and CEO was based on both the agreed financial goals and success in strategy execution. Based on performance against the targets set, bonuses earned in 2017 (payable in spring 2018) ranged from 20% to 66% of salary for the President and CEO and Leadership Team members.

Share-based program 2015–2017 included 126 participants on 31 December 2017. Final share delivery from this plan is taking place in spring 2018 following the criteria set for the plan.

Remuneration for 2018

At the end of 2017, the Remuneration Committee started preparing a new long-term incentive plan for the coming years with a continued focus on growth and profitability.

Short-term incentive measures are designed to further direct senior management focus into company profitability, growth and strategically important initiatives within own responsibility areas. Tieto continues to share its success with personnel by having each employee to participate either in performance reward (3 000 participants), achievement reward (10 000 participants) or sales incentive plans (360 participants). These plans build a solid foundation for the performance culture at Tieto.

Kurt Jofs

Chairman of the Board of Directors
Chairman of the Remuneration Committee

Report by the Board of Directors

KEY FIGURES

	2017	2016
Net sales, EUR million	1 543.2	1 492.6
Operating profit (EBIT), EUR million	139.2	140.8
Operating margin, %	9.0	9.4
Adjusted ¹⁾ operating profit (EBIT), EUR million	161.5	152.2
Adjusted ¹⁾ operating margin, %	10.5	10.2
Profit before taxes, EUR million	135.8	136.8
Earnings per share, EUR	1.46	1.46
Adjusted ¹⁾ earnings per share, EUR	1.69	1.58
Equity per share, EUR	6.45	6.62
Dividend per share, EUR	1.40	1.37
Capital expenditure, EUR million	50.8	61.6
Acquisitions, EUR million	49.3	37.6
Return on equity, %	22.4	22.1
Return on capital employed, %	20.5	21.6
Gearing, %	32.7	22.5
Equity ratio, %	42.6	47.3
Personnel on average	13 889	13 472
Personnel on 31 Dec	14 329	13 876

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

IT market development

- The total market is expected to remain dynamic and to see further growth. In 2018, the Nordic market is anticipated to grow by 2%.

Digitalization of customers' business is accelerating in support of a twofold agenda of growing revenue through innovation and reducing costs by improving efficiency. Customers focus on enhancing digital capabilities, such as analytics, to expand their existing product and service portfolios and improve user experience. A new generation of digital platforms is being built – and at the same time, existing legacy systems are being modernized.

Emerging services based on new technologies such as the cloud, software robotics, artificial intelligence and blockchain are expected to experience double-digit growth and the decline in traditional services (traditional application and infrastructure services) will continue. Artificial intelligence and machine learning, for example, help detect patterns in vast volumes of data, and hence provide improved insight into potential outcomes. Consequently, enterprises will be able to provide customers with personalized, predictive experiences and increase the automation and accuracy of processes.

Blockchain and distributed ledger technologies enable businesses, public organizations and individuals to form trust relationships and transact over the Internet more efficiently, without involving middlemen. Tieto established a new Blockchain Solutions business unit in 2017. The purpose is to help organizations in various industries to renew their business by providing technology consulting and a variety of services through an extensive ecosystem of partners. One of the first steps is to introduce a global identity network for Nordic customers together with Evernym – a leading developer of self-sovereign identity technologies.

It is estimated that currently around 20–25% of global infrastructure services are represented by cloud, predominantly private cloud. While most organizations use cloud services to some extent, fewer than 20% are currently cloud mature. The total infrastructure cloud (Infrastructure as a Service and Platform as a Service) market is expected to

grow by 15–20% annually. This comprises

- public cloud adoption – expected market growth 25–30%
- private/enterprise cloud – expected growth 10–15%.

Future cloud market growth will extensively be driven by multi-cloud solutions integrating public cloud, private cloud and traditional technologies for customers to enable cost-efficient business innovation and agility. Tieto's focus and growth since 2014 have mainly been based on its private cloud offerings. In 2017, Tieto expanded its cloud portfolio to include public cloud services through the launch of OneCloud. OneCloud is a multi-cloud solution seamlessly orchestrating workloads across private and public clouds.

There is an accelerated need for customers to quickly roll out new digital services. The trend involves moving to automated application development and maintenance, as well as adoption of multicloud strategies, requiring strong service orchestration capabilities. In line with these trends, traditional development programmes are cut into smaller projects. The IT industry is also continuing to shift from traditional large outsourcing agreements towards agile methods and consumption-based business models.

Customers' competitive landscape is changing fast with new technology-based companies entering the market, in some cases from outside clients' own industry. This trend, visible across all industries, is calling for an active innovation agenda for current actors to remain competitive. Currently, this has the greatest impact on the financial services and retail sectors.

The new EU General Data Protection Regulation, taking effect in May 2018, has an impact on IT markets. This regulation will open up new opportunities for Tieto's security and application services.

Sweden continues to be the fastest-growing of Tieto's core markets, which is also reflected in active

recruitment of IT talent in all industries. In Finland, the economic outlook has improved, and this will gradually also support the IT services market.

Industry sector drivers

- In the **financial services** sector, there is still a rather high level of activity with several large programmes ongoing, driven by digital transformation, core system renewal and regulation. However, many programmes are divided into smaller projects to better control performance and costs. The market is currently capability driven, as many of the larger programmes are managed by customers and require a broad range of competences across markets. Many new smaller players (Fintech) are still entering the market, continuing to challenge traditional IT service providers. Regulatory changes such as PSD2 (Payment Services Directive) and GDPR (General Data Protection Regulation) are creating new opportunities within Financial Services, but also pose a degree of uncertainty and postpone larger customer transformation projects. Interest in business process outsourcing and software as a service delivered on secure cloud platforms continues to grow.
- In the **public** sector, the digitalization of services and processes will continue with a focus on cost reductions and citizen-centric services. There is healthy demand for consulting services and solutions such as digitalized learning and planning for the education segment and mobile solutions for elderly care. Due to recent security incidents, mainly in Sweden, there is some cautiousness related to outsourcing of IT services, and clients seek to ensure that data is stored and services operated within their jurisdiction. In Finland, Tieto is actively participating in the Government development programme in order to facilitate digitalization in the public sector.
- 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. There are large development projects planned across all Nordic markets and the prevailing trend is to move towards integrated healthcare and welfare systems supporting seamless care. Large-scale Electronic Medical Record procurements are ongoing in all Nordic countries. In Finland, it is anticipated that the ongoing healthcare and social welfare reform will provide growth opportunities in the coming years. The first regional proposals were submitted during 2017; due to delays in legislation, customers will focus on smaller modernization activities.
- In the **manufacturing, forest and paper sector**, the strong digitalization trend continues and clients are seeking ways to deploy IoT in production as well as new smart services and products to ensure steady revenues and to improve service experience. At the same time, core process renewals to deploy cloud-enabled ERP solutions are ongoing. Preventive maintenance continues to drive digitalization in the manufacturing sector and customer experience is a strong driver. In the case of wood and production equipment, there is increased interest in digital twins of assets, using data from sensors installed to represent their current status. In the paper industry, the need to lower production costs continues to drive the adoption of new digital solutions, such as IoT and Smart Manufacturing. The market for consulting and business transformation is active.
- In the **retail and logistics** sector, enterprises are investing in more advanced solutions and eCommerce platforms to be able to provide a unified customer experience in all interaction across different touchpoints, including brick and mortar. Along with the omnichannel transformation, enterprises need to tightly integrate their customer interface solutions with their core supply chain solutions and seamless mobile payments. In addition, B2B enterprises are expanding from transactional digital services to enhanced user experience.
- In the **energy** utility sector, automation and digitalization is needed to improve efficiency and customer care, and differentiation is increasingly based on improved customer interaction. In the Nordic countries, common electricity hubs and the implementation of a supplier centric model will continue to drive the market for customer information and billing solutions in 2018. In Finland and Sweden, the next generation of smart meters will open new opportunities for Advanced Meter Infrastructure services. In the oil & gas market, there is healthy demand for Tieto's solution.

- The **media** sector is continuing to undergo a change with increased deployment of digital services. Advertising continues to shift from traditional media to digital channels and related solutions are being renewed. 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, demand for IT services is driven by modernization of existing legacy systems as well as transformation towards new platforms that create additional business value. Customers are increasingly utilizing agile development methodologies to quickly launch and manage new services. The regulatory requirements in the EU are creating a positive business environment for service providers.

Strategy implementation

In its strategy for 2016–2020, Tieto aims to address its customers' dual agenda: to run their existing businesses efficiently while innovating new services. Tieto is enhancing 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's strategy and financial objectives remain unchanged and as stated in the strategy launch in 2016. Tieto continues to drive shareholder returns above industry average. Positive financial development and attractive dividend policy are expected to continue while the company has increased its investments to support innovation and growth.

Strategy implementation in 2017 and 2018

Tieto continued to consistently execute its strategy based on the objectives set for the year. In 2017, the focus was, e.g. on innovation and growth, quality and customer experience, productivity and ensuring future skills.

Tieto's growth of 4% in local currencies exceeded market growth and was supported by acquisitions. Emeric, acquired in 2016 to accelerate growth in Industry Solutions, and Avega, a consulting company acquired to strengthen Tieto's foothold in Sweden, both contributed to growth in 2017. In line with the objectives set for the year, growth in Sweden rose to 8%, and also organically sales were up by 5%.

To ensure the company's position as customers' first choice for business renewal and help increase the company's Nordic market share by 1–2 percentage points by 2020, investments in offering development were maintained at an elevated level of close to EUR 75 million, representing 5% of sales. The largest portion of investments are targeted at selected industry solutions, including the use cases in Tieto's Data-Driven Businesses, with a view to gaining momentum towards the end of the strategy period. Tieto aims to raise the share of Industry Solutions close to 40% of the Group sales by 2020. In 2017, Tieto continued to follow the roadmap for the company's software renewal while Industry Solutions' growth in 2017, totalling 5%, was somewhat below the long-term target. With important launches planned for 2018, investments are anticipated to yield results during the second half of the 2016–2020 strategy period.

The 2017 automation programme aiming to ensure constant productivity improvement and competitiveness has been thoroughly implemented. Additionally, the company's ambition to reduce sales & administrative costs has progressed, decreasing the share accounted for by these costs from around 15% to 13–14% of sales.

Overall, 2017 was a strong year for all key stakeholder groups, including:

- Employees: improvement in employee experience, measured by the annual employee engagement survey
- Customers: all-time high customer experience based on Net Promoter Score – customer-centricity coupled with systematic practices help Tieto restore and further improve quality
- Shareholders: healthy returns maintained with strong dividend payout while innovation and investments in selected solutions continued to ensure future growth.

Tieto was recognized for its achievements during the year, which will provide a good basis for strategy execution in 2018. In its research published in 2017, Forrester named Tieto a Strong Performer in hosted private cloud services in Europe. In addition, Thomson Reuters recognized the company's continued focus on innovation, good performance and social responsibility, and selected Tieto for its Top 100 Global Tech Leaders list.

In 2018, Tieto will continue to invest in accelerating growth based on selected high-growth businesses. The focus will be on growth in Sweden, proven scalability in Data-Driven Businesses and key launches in Industry Solutions, including Transaction Banking and Hospital Information System solutions.

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, data-driven businesses help Tieto and its customers to capture the opportunities provided by the data-driven economy and artificial intelligence.

Tieto drives scale and repeatability through investments in software businesses, including start-up businesses with strong growth potential. 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 with selected industry solutions and growth services. The company has increased investments mainly in the following growth businesses during the past two years:

- Selected industry solutions and Data-Driven Businesses with aggregated annual sales of around EUR 340 million in 2017
 - Lifecare (Healthcare and welfare)
 - Case management (Public sector)
 - Banking solutions (Financial services)
 - Payments (Financial services)
 - Data-Driven Businesses – started in July 2016 and reported within selected industry solutions
- Selected growth services with annual sales of around EUR 190 million in 2017
 - Cloud services
 - Customer Experience Management
 - Security Services.

In 2017, sales of the growth businesses amounted to around EUR 530 million and the increase totalled 8%, comprising growth of 6% in the selected industry solutions and Data-Driven Businesses and 13% in selected growth services.

Tieto's start-ups, Security Services and Customer Experience Management, were the strongest growing businesses. Security Services, launched in late 2015, completed its year with double-digit growth in the fourth quarter and saw a full-year sales increase of 19%. Increasing awareness of cyber security and the need for protection continues to accelerate the demand for security services. Tieto anticipates that the EU General Data Protection Regulation will open new opportunities during the first half of 2018. Customer Experience Management (CEM) posted full-year growth of 26%. Tieto continued to develop omnichannel capabilities as well as agile customer-driven solutions enhancing personalized user experiences based on data and intelligence. The focus has been on the development of a next-generation customer experience solution built on new microservices architecture combining business knowledge, design, software development and rapid deployment. The solution is targeted at omnichannel marketing, sales and service. Cloud services posted growth of 10% ¹⁾. There is strong interest in shifting from current service environments to Tieto's OneCloud solution. The solution, launched in early 2017, is a dynamic solution that enables customers to efficiently manage multiple cloud services through one platform.

Growth solutions within Data-Driven Businesses, such as Intelligent Wellbeing and Empathic Building, and their expansion from Finland to other Nordic countries, have developed favourably and have received good customer feedback. Also, Tieto is implementing Digital Data PaaS (Platform as a Service) solution for customers in a number of industries and the good momentum is expected to continue. In 2018, the focus will be on acceleration and scale.

¹⁾ Cloud services growth of 10% includes both infrastructure cloud and selected services such as cloud-enabled consulting and shared integration services. Infrastructure cloud (Infrastructure as a Service and Platform as a Service) sales in the full year were up by over 15%.

Performance drivers 2018

In IT services, Tieto aims to grow faster than the market during the year. To support this ambition, Tieto is committed to actions driving competitiveness and will continue its investments in innovation and growth. In line with its aim

of accelerating growth in the consulting-driven Swedish market, Tieto completed the acquisition of Avega Group AB in December 2017. This will also affect sales in 2018. Avega's annual sales amount to around EUR 45 million, of which around EUR 4 million was recognized in 2017. IT services' performance drivers also include

- solution launches contributing to growth
- offering development
- recruitments in new service areas and related competence development
- automation and industrialization in service deliveries
- salary inflation.

The company will continue to renew and strengthen its service and solution portfolio with a special focus on selected industry solutions driving growth. Offering development costs are anticipated to remain at the 2017 level at close to 5% of Group sales.

Capital expenditure (CAPEX) is anticipated to remain below 4% of Group sales.

In line with the market change, competence renewal will continue. In addition to close to 450 employees from acquisitions and new outsourcing agreements, Tieto recruited close to 250 new employees in 2017, mainly in new competence areas. As part of its long-term renewal and the need to increase productivity and price competitiveness, Tieto initiated actions to optimize its productivity and cost structure globally in 2017. Redundancies implemented during 2017 amounted to over 500 and the actions altogether resulted in gross savings of around EUR 20 million in 2017. The company expects that the actions will result in additional gross savings of around EUR 20 million in 2018, mainly in the first half. Around half of the total redundancies affect the Technology Services and Modernization service line.

Tieto currently estimates that its full-year restructuring costs in 2018 will represent 1–2% of Group sales. 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.

Salary inflation is anticipated to amount to close to EUR 30 million in 2018.

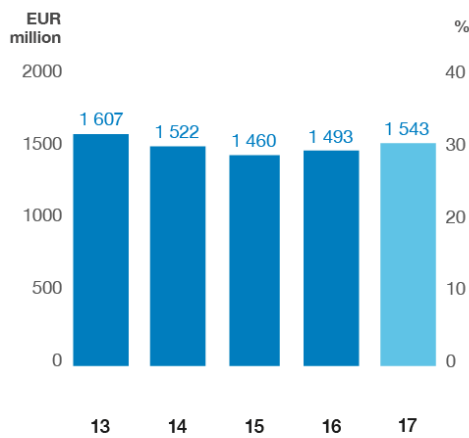
At the annual level, Tieto anticipates positive growth and profitability development to continue while financial development is anticipated to experience a degree of quarterly variations during the year. The first quarter will be affected by a lower number of working days whereas the second quarter is expected to be stronger. Additionally, first-quarter currency effects will be negative based on year-end exchange rates. Further details on currency sensitivity are available at www.tieto.com/currency-impact. The market for Industry Solutions is expected to remain good, especially in the financial services and healthcare and welfare segments, and Tieto's product launches during the year are anticipated to accelerate growth towards the second half of the year.

Financial performance

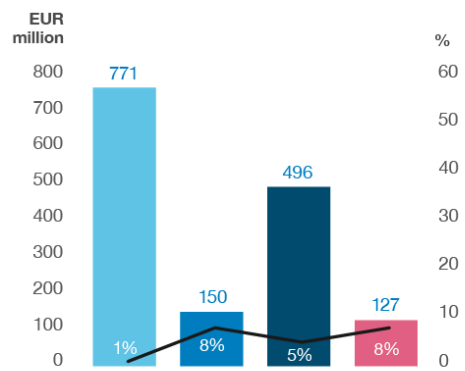
Net sales increased by 3.4% to EUR 1 543.2 (1 492.6) million, growth of 4.1% in local currencies. In IT services, net sales were up by 3.0%, in local currencies up by 3.6%. In Product Development Services, sales increased by 7.9%, in local currencies up by 9.6%.

Acquisitions added EUR 17 million in sales, affecting Industry Solutions and Business Consulting and Implementation. Currency fluctuations had a negative impact of EUR 10 million on sales, mainly due to the weaker Swedish Krona.

Net sales and growth

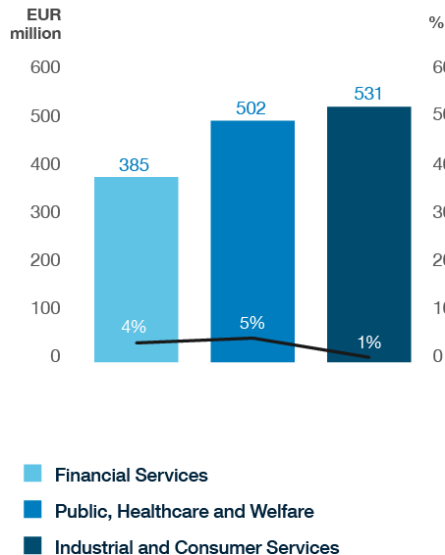


Net sales and growth by service line

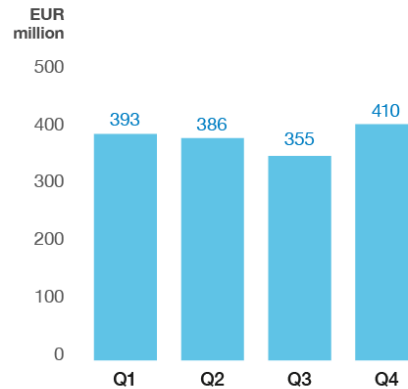


- Technology Services and Modernization
- Business Consulting and Implementation
- Industry Solutions
- Product Development Services

Net sales and growth by industry group



Net sales by quarter, EUR million



Operating profit (EBIT) amounted to EUR 139.2 (140.8) million, representing a margin of 9.0% (9.4). Operating profit was strained by restructuring costs related to the automation and efficiency improvement programme initiated in January 2017. Adjusted¹⁾ operating profit stood at EUR 161.5 (152.2) million, or 10.5% (10.2) of net sales. Further details on adjustments are available in a table on page [Reported alternative performance measures](#).

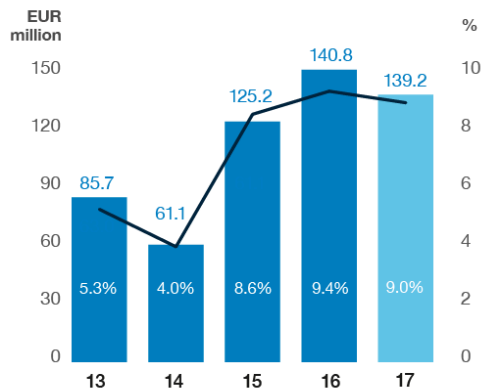
The efficiency improvement programme had an impact of around EUR 20 million on the cost base in the full year, whereas improvement was curbed by salary inflation of around EUR 18 million. The performance-based incentive accruals, including both short-term and long-term incentives, were EUR 37.6 (25.6) million. Offering development costs remained at the previous year's level at close to EUR 75 million.

Depreciation and amortization amounted to EUR 54.7 (53.9) million, including EUR 4.3 (3.3) million in amortization of acquisition-related intangible assets. Net financial expenses stood at EUR 3.4 (4.0) million in the full year. Net interest expenses were EUR 2.1 (2.1) million and net losses from foreign exchange transactions EUR 0.2 (1.1) million. Other financial income and expenses amounted to EUR -1.1 (-0.8) million.

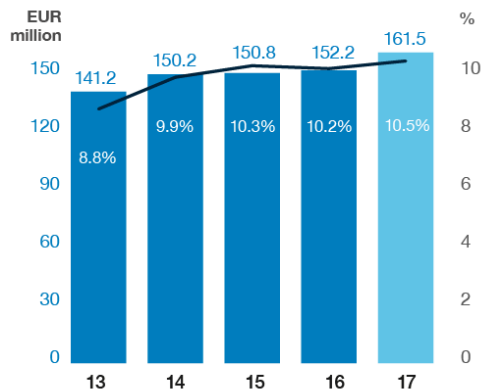
Earnings per share (EPS) totalled EUR 1.46 (1.46). Adjusted¹⁾ earnings per share amounted to EUR 1.69 (1.58).

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

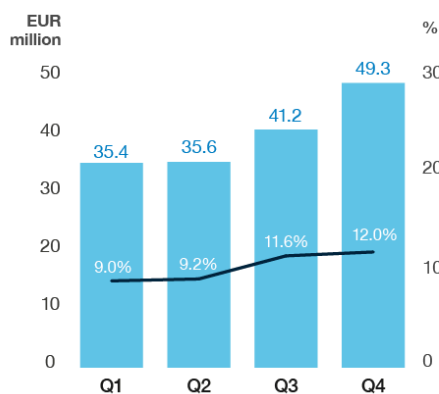
Operating profit (EBIT) and margin



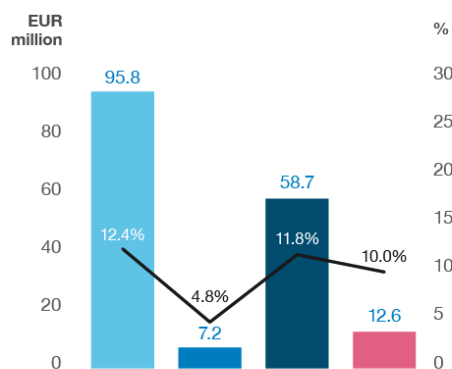
Adjusted operating profit (EBIT) and margin



Adjusted operating profit (EBIT) and margin by quarter



Adjusted operating profit 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 1-12/2017	Customer sales 1-12/2016	Change, %	Operating profit 1-12/2017	Operating profit 1-12/2016
Technology Services and Modernization	771	762	1	84.8	89.0
Business Consulting and Implementation	150	139	8	8.0	4.1
Industry Solutions	496	475	5	55.4	55.2
Product Development Services	127	117	8	12.3	10.9
Support Functions and Global Management				-21.2	-18.5
Total	1 543	1 493	3	139.2	140.8

Operating margin by service line

%	Operating margin 1-12/2017	Operating margin 1-12/2016	Adjusted ¹⁾ operating margin 1-12/2017	Adjusted ¹⁾ operating margin 1-12/2016
Technology Services and Modernization	11.0	11.7	12.4	12.1
Business Consulting and Implementation	5.3	3.0	4.8	1.2
Industry Solutions	11.2	11.6	11.8	12.5
Product Development Services	9.7	9.3	10.0	9.4
Total	9.0	9.4	10.5	10.2

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

In **Technology Services and Modernization**, sales in local currencies were up by 2%. Development in traditional services has remained twofold. Application services saw growth of 4% while the decline in traditional infrastructure services was 5%. Cloud services' sales continued to grow and full-year cloud sales were up by 10%¹⁾. Operating margin remained at a good level due to continued service standardization and automation.

In **Business Consulting and Implementation**, sales growth was supported by the acquisition of Avega as well as good performance in Customer Experience Management with growth of 26% and increased demand in consulting. Adjusted operating profit improved due to the higher billing rate and lower offering development investments.

In **Industry Solutions**, sales in local currencies were up by 5%. Development was healthy across industry groups. Financial Services' solutions were supported by the acquisition of Emeric, contributing to Banking solutions' growth of over 20%.

Additionally, solutions such as Lifecare and SmartUtility remained good with growth of 5% in both. Investments in selected solutions continued and offering development costs were up by around EUR 5 million. Despite improved efficiency, adjusted operating profit was down.

In **Product Development Services (PDS)**, sales growth remained strong throughout the year. Growth was attributable to strong volume development with the largest key customers. Development was strong especially in the Radio and Smart Traffic areas. Operating margin improvement is attributable to improved the billing ratio driven by growth.

¹⁾ Cloud services growth of 10% includes both infrastructure cloud and selected services such as cloud-enabled consulting and shared integration services. Infrastructure cloud (Infrastructure as a Service and Platform as a Service) sales in the full year were up by over 15%.

Customer sales by industry group

EUR million	Customer sales 1-12/2017	Customer sales 1-12/2016	Change, %
Financial Services	385	370	4
Public, Healthcare and Welfare	502	479	5
Industrial and Consumer Services	531	527	1
IT services	1 416	1 376	3
Product Development Services	127	117	8
Total	1 543	1 493	3

M&A impact by service line

	Growth, % (in local currencies) 1-12/2017	Organic growth, % (in local currencies) 1-12/2017
Technology Services and Modernization	1.8	1.8
Business Consulting and Implementation	8.7	5.9
Industry Solutions	5.2	2.5
IT services	3.6	2.4
Product Development Services	9.6	9.6
Total	4.1	3.0

M&A impact by industry group

	Growth, % (in local currencies) 1-12/2017	Organic growth, % (in local currencies) 1-12/2017
Financial Services	4.4	1.1
Public, Healthcare and Welfare	5.6	5.4
Industrial and Consumer Services	1.3	0.6
IT services	3.6	2.4
Product Development Services	9.6	9.6
Total	4.1	3.0

Cash flow and financing

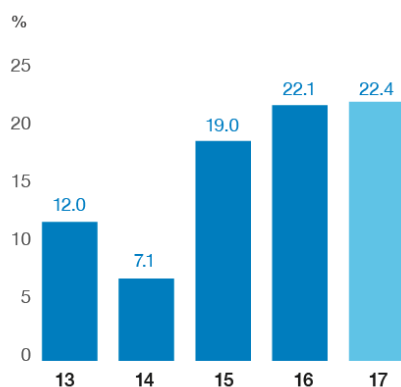
Net cash flow from operations amounted to EUR 151.0 (97.2) million, including the increase of EUR 15.4 (51.6) million in net working capital.

Full-year tax payments were EUR 16.9 (37.6) million, including a tax refund of EUR 4.8 million. The refund was related to a tax reassessment decision in 2015 regarding the company's transfer-pricing audit in Finland.

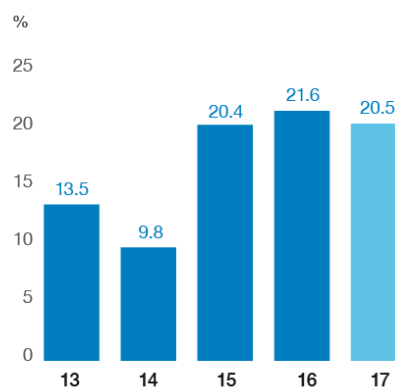
The equity ratio was 42.6% (47.3). Gearing increased to 32.7% (22.5). Interest-bearing net debt totalled EUR 155.7 (109.7) million, including EUR 234.7 (166.9) million in interest-bearing debt, EUR 2.5 (5.5) million in finance lease liabilities, EUR 2.8 (5.7) million in finance lease receivables, EUR 0.5 (0.3) million in other interest-bearing receivables and EUR 78.2 (56.7) 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 102.5 million at the end of December. Interest-bearing short-term loans amounted to EUR 134.6 million, mainly related to commercial paper issues and joint venture cash pool balances. The syndicated revolving credit facility of EUR 150 million maturing in May 2021 was not in use at the end of December. The EUR 85 million financing agreement, concluded with the European Investment Bank in June, was not utilized at the end of December. The agreement is a committed credit facility where Tieto has a possibility to withdraw funding for up to nine years.

Return on equity, %



Return on capital employed, %



Investments and development

The company has maintained its investment levels to accelerate innovation through offering development for high-growth businesses as well as acquisitions. Additionally, the company will continue to invest in standardization and automation to drive improvements in productivity and quality.

Full-year capital expenditure totalled EUR 50.8 (61.6) million, of which paid EUR 47.0 (61.7) million. Capital expenditure represented 3.3% (4.1) of net sales and was mainly related to data centres. Net payments for acquisitions totalled EUR 49.3 (37.6) million.

Tieto's offering development costs remained at the previous year's level at close to EUR 75 million, representing 5.0% of Group sales (EUR 75 million in 2016, representing 5.0% of net sales). These costs comprise service and solution development focusing on, for example, industry-specific software, Customer Experience Management and Security Services, as well as cloud services. Additionally, the costs for related internal development, such as automation in infrastructure services, are included in this amount. No development costs were capitalized for either 2017 or 2016.

Order backlog

In line with the emerging market trend, binding durations and values in new contracts are decreasing while frame agreements provide revenue opportunities. This market change is affecting both the order backlog and Total Contract Value, but has no impact on the market growth outlook. If the average contract duration had remained unchanged, Tieto's book-to-bill would be 0.2 higher than the reported figure (rolling 12 months compared with the base line in 2015).

Total Contract Value (TCV) amounted to EUR 1 575 (1 669) million and book-to-bill stood at 1.0 (1.1).

The order backlog continues to be healthy and amounted to EUR 1 860 (1 847) million. Of the backlog, 52% (49) is expected to be invoiced during 2018, representing annualized revenue value of EUR 974 (913) million for 2018.

The total value, including the part beyond the notice period and estimation related to consumption-based contracts, is included in the TCV. Order backlog includes all signed customer orders that have not been recognized as revenue, including the estimates of the value of consumption-based contracts.

Major agreements

During the year, Tieto signed a 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 January, a collaboration group of Norwegian municipalities (DGI) selected Tieto as its supplier of a new delivery platform for the six owner municipalities. In September, Norwegian municipalities initiated negotiations to review the scope of the agreement, and the parties decided to terminate the agreement in the fourth quarter. Its total value of approximately EUR 22 million has been deducted from Tieto's order intake and order backlog.

In January, Tieto signed an agreement to digitalize Region Blekinge's document and case management system with a new cloud-based service, Public 360°. The digitalization will result in faster, more efficient and more flexible information management and will pave the way for Region Blekinge's integration into the Blekinge County Council in 2019.

In January, Tieto took over the full responsibility for the next development phase of the eCommerce and omnichannel operations solution of Granngården, a major retail chain in Sweden. With this new solution, Granngården aims to develop their customer experience and to lay the basis for online revenue growth and seamless omnichannel experience.

In February, Tieto signed an outsourcing agreement with the municipality of Järfälla in the Stockholm region. The purpose is to provide future-proof application and IT services that will ensure a smooth digital transition and make everyday life for citizens easier. The contract is initially for four years, including two extension options for a total period of up to eight years, with a value of approximately EUR 14 million.

In February, Tieto signed a four-year deal with Swedish engineering and consultancy firm ÅF to modernize the company's IT infrastructure around the world. The contract extends Tieto's strategic partnership with ÅF and will help the firm pursue its aggressive growth targets with the help of cutting-edge cloud services and workplace solutions. Tieto will upgrade ÅF's IT infrastructure in offices across six different service areas, including Server and Storage through Tieto OneCloud.

In February, the Finnish Prime Minister's Office, Government ICT Centre (Valtori) and Tieto signed an agreement to digitalize case and document management within the ministries and governmental agencies in Finland. The assignment is one of the most significant digitalization projects in the country, supporting the nationwide transformation of central government administration. The agreement with Tieto is valid to the year 2020 and is intended to enable a gradual transition toward digital management of everything from case and document processes to electronic archiving.

In February, Tieto signed a three-year contract with SCA, Europe's largest private forest owner, to handle SAP Application Lifecycle Management Services, whereby Tieto will be responsible for application management and development. The aim is to help SCA follow industry best practices and at the same time ensure business continuity and lower application maintenance costs.

In March, Apoteket Group, a state-owned pharmaceuticals retailer in Sweden, extended their current Application Service Management contract with Tieto for an additional period of three years. The agreement provides Apoteket with a cost-effective solution combined with high availability to applications. The contract has an estimated value of EUR 4 million.

In March, Tieto signed an outsourcing agreement with Folksam, an insurance company in Sweden. Folksam and Tieto continue to develop their partnership with this outsourcing agreement under which Tieto takes over the responsibility for Folksam's IT operations in Östersund, Sweden. Based on the agreement, Folksam IT operations' employees in Östersund will be offered employment at Tieto. This will further strengthen Tieto's position in the Swedish market and will add valuable expertise in application management and consulting services.

In March, HSB and Tieto concluded a new three-year agreement on infrastructure services with an estimated contract value of EUR 7.8 million. HSB, the largest Swedish housing cooperative, was looking for an IT partner to help the organization build a coordinated IT infrastructure for its affiliated regional associations. Tieto's solution, based on SPOC Service Desk, OneCloud services, network services, application operations and customized infrastructure services, facilitates collaboration based on flexible standards while achieving a 30% reduction in costs for IT operations in a pay-as-you-use model.

In March, Tieto signed a five-year contract with Outokumpu whereby Tieto will supply Outokumpu with next generation infrastructure services. Tieto provides Outokumpu with multi-cloud capabilities based on its OneCloud solution, a combination of public and private cloud capacity platforms with a unified service experience. With Tieto's solution, Outokumpu enhances its competitiveness by improving operational efficiency through global standardization and decreased time-to-market.

In April, the energy company Vattenfall selected Tieto to deliver its Tieto Smart Utility for Vattenfall Distribution and Vattenfall Retail in Sweden based on two separate procurement processes. The new system will increase efficiency by digitalizing and automating the customer's core business processes, such as sales, customer services, work flow management and billing.

In April, Turku Energia, one of Finland's largest energy companies, selected the Tieto Smart Utility cloud service solution to support its energy retail and distribution businesses and its district heating, steam and cooling businesses. Tieto's Smart Utility will increase efficiency by digitalizing and automating the client's key processes and enabling seamless connection with the datahub, a forthcoming centralized information exchange solution for energy companies.

In May, the Finnish Transport Safety Agency, Trafi, signed a framework agreement to purchase information system services from Tieto. Tieto's experts will develop and maintain Trafi's information systems for road traffic, maritime, boating and information services. The contract period is valid from 2017 to 2021.

In May, Tieto and Fora, a service company that offers administrative solutions for collective insurance agreements and fees for parties on the labour market, signed an agreement extension on cloud and capacity services. The extended agreement continues to entail flexible and secure cloud solutions with high availability for both infrastructure capacity and business-critical ERP systems. The solutions will help Fora strengthen continuity in operations as well as improve IT processes, resulting in reduced costs and increased flexibility.

In May, Tieto signed an outsourcing agreement with Inwido AB, Europe's largest supplier of windows and a leading door supplier, to deliver service desk, end user and infrastructure services. The contract is for five years and has a total value of EUR 6 million. The first signed agreement covers Sweden and several global services.

In June, Tieto signed an agreement with Lecta, one of the leading manufacturers and distributors of specialty papers for labels and flexible packaging, coated paper for publishing and other high value-added print media, to deliver the implementation of Tieto's paper solution template, integrating SAP with TIPS, Tieto's Mill Execution System product. During 2016 and the beginning of 2017, Tieto successfully completed a blueprint for streamlining and harmonizing Lecta's business processes based on Tieto's industry-specific Paper Solution Template. Tieto will by April 2018 implement the defined processes in SAP to create a common template for seven paper mills and support the rollout process. This will further strengthen Tieto's position as a preferred partner utilizing IT to drive and enable business change and to address the fast-changing market requirements.

In June, Tieto signed an agreement with Qliro, a Nordic company within the FinTech industry, specializing in eCommerce payments, consumer financing and savings accounts, to deliver a digital service for savings accounts. Emeric, acquired by Tieto in September 2016, will deliver the underlying system (Emeric's Managed Services solution) for the entire deposit value chain from automated customer registration to administration. The solution includes the core system that comprises not only a digital self-service platform, verification through BankID,

and accounting, but also staffing for general administration. The agreement has a term of three years.

In June, Tieto signed an agreement with international media group Modern Times Group (MTG) to standardize, integrate and modernize MTG's IT infrastructure by delivering data centre, end-user, service desk, security and network services. The contract is for three years.

In June, Södertälje municipality chose Tieto as its supplier of end-user IT services and the underlying infrastructure, which will take the municipality's digitalization to the next level. Tieto will also provide the customer with service integration and management (SIAM) solutions to develop the municipality's IT services and coordinate suppliers. The contract is for five years with an option for an additional four years, and is worth approximately SEK 140 million. As part of the deal, Tieto will deliver end-user services such as IT workplaces, service desk, e-mail and printing services, as well as infrastructure including networks, internet connections, security services and an integration platform.

In June, Tieto signed a three-year contract with Mutual Pension Insurance Company Ilmarinen to digitalize and renew insurance services and processes. Tieto is delivering competences for insurance consulting, design thinking, service design, application and front-end development, testing and a SAFe framework.

In June, Tieto signed an agreement with Keva and Varma, two large Finnish pension providers, to deliver a new pension payment system. The three-year renewal project will create a platform for automated and modern payments. DevOps methods and automated solutions are used for system development. The new pension payment system will replace the current aging systems and will connect seamlessly to tax authorities, banks and the public pension system. Modern technologies and modularity will enable flexible developments in the future, allowing the system to adapt to new regulations in a cost-efficient way.

In June, Tieto signed an agreement with Stockholm County Council to provide application management services. This four-year contract with an option to extend by three more years has a total value of EUR 17 million.

In June, HERE, the Open Location Platform company, selected Tieto as one of their strategic outsourcing vendors. This long-term R&D cooperation contributes to HERE's fast growth

strategies and strengthens Tieto's position as one of the leading vendors for product development services in automotive, smart traffic and IoT domains.

In September, Tieto signed an agreement with Arek, a service provider for pension companies in Finland, for a development project that is part of the customer's programme related to the National Income Register.

In September, Nævnenes Hus, a Danish Appeals Boards Authority (part of the Ministry of Industry, Business and Financial Affairs), signed a four-year contract with Tieto. Nævnenes Hus aims to create Europe's best complaint centre within a few years. With Tieto's Public 360° Process Engine, Nævnenes Hus will gain an improved overview, enhance its management of cases and automate manual processes. Furthermore, the client will combine historical databases with Tieto's eArchive 360°.

In September, Cargotec and Tieto entered into a partnership in which Tieto will take over Cargotec's overall IT service management and a major part of its solution expertise services. Tieto will take the responsibility for continuously modernizing and securing IT services and offering application development and lifecycle management services. Around 50 employees from Cargotec transferred to Tieto on 1 November 2017.

In September, the Ministry of Agriculture and Forestry together with the Agency for Rural Affairs, the Finnish Food Safety Authority and the Natural Resources Institute Finland signed a four-year contract with Tieto for continuous services and development of a shared eService environment. The provided services require very high availability and performance as well as high information security. The contract is based on the Hansel frame agreement and has an estimated value of EUR 6 million.

In September, Göteborg Energi, one of Sweden's leading energy companies, chose Tieto Smart Utility for its distribution and retail business. The system increases efficiency by digitalizing and automating core business processes such as sales, customer services, workflow and output management and billing. This will help improve the experience for approximately 600 000 energy retail and distribution customers. Tieto Smart Utility complies with regulatory requirements in the energy market and provides a seamless transition to the coming supplier centric model. The initial contract has a duration of five years, with an extension option for another five years.

In October, the Swedish municipality of Haninge selected Tieto to supply it with user-friendly IT services. Under the agreement, Tieto will deliver a modern IT workplace to facilitate the work of both school students and the municipality's administrative staff. The new solutions are in line with Haninge's overall digitalization strategy and will render the municipality's current work processes more efficient and enable the municipality's staff to better communicate with citizens. The two-year agreement has an estimated value of SEK 32 million and includes an extension option for another two years.

In October, Tieto and Tampere with municipalities in the region signed a three-year agreement on Service Integration and Management (SIAM) covering major incident situations in the complex multi-vendor environment. The goal is to improve coordination and quality assurance management in IT. The agreement includes SIAM Ticket Lifecycle Management, where Tieto takes responsibility for the coordination of solving tickets across all IT suppliers in the Tampere region. Additionally, the solution includes SIAM MIM Service, including 24/7 leadership in MIM situations in Finnish, coordination of problem solving together with all Tampere IT suppliers, coordination of root cause analysis and continuous improvement of the knowledge and instructions between parties.

In October, Tieto signed an agreement with the Norwegian Data Protection Agency to develop a national registry of Data Protection Officers (DPOs). Based on the new EU General Data Protection Regulation (GDPR), many organizations and businesses must appoint a DPO to ensure compliance with the legislation. The Norwegian Data Protection Agency is the supervisory body for the establishment of the DPOs, and the registry will be developed based on Tieto's standardized eArchive solution.

In November, Elo, a Finnish mutual pension insurance company, and Tieto prolonged their existing contract. Under the five-year agreement, Tieto will provide Elo with infrastructure and cloud services, and create a scalable modern platform to help increase cost-efficiency and streamline operations as well as create favourable conditions for Elo's future business and an efficient value chain.

In November, Tieto signed an agreement with the City of Stockholm to provide next-generation IT services for the city's administration and the companies owned by the municipality. The procurement includes workplace services, server and application management and service desk. The annual value of the tender was initially estimated to be approximately SEK 330 million (EUR 33 million). The contract value booked in 2017 was around EUR 80 million while the company expects the total value of the volume-based agreement to be higher than this. After the transition period in 2018, the contract is expected to have a full impact on sales as from 2019. The agreement is valid until 31 December 2023 and includes an option to extend by a maximum of six years.

In December, Tieto signed a contract with Martela, a Nordic company supplying furniture and interior solutions, whereby Tieto will deliver its Empathic Building workplace solution to Martela's head offices in Helsinki and Stockholm. Martela is harnessing its user-friendly features to improve the workplace experience of its personnel, while ensuring efficient use of its premises. Real-time data and visualized analytics dashboards add value for workplace users and provide a basis for new optimization services

Business transactions

Based on a recommended public offer, Tieto Sweden AB acquired Avega Group AB, a Swedish consulting company in December. The acquisition will accelerate Tieto's growth areas and strengthen its footprint in the Swedish consulting-led market. Avega is planned to take a lead role in driving Tieto's business renewal agenda for Swedish customers and it will form the core of Tieto's Business Consulting and Implementation in Sweden. Avega has approximately 350 employees and its net sales amounted to EUR 45.2 million (SEK 428 million) in 2016. Avega has been consolidated into Tieto as from 1 December.

Personnel

The number of full-time employees amounted to 14 329 (13 876) at the end of December. The number of full-time employees in the global delivery centres totalled 6 979 (6 643), or 48.7% (47.9) of all personnel.

The number of full-time employees was up by a net amount of around 450, including the acquisition of Avega. In IT services, the number of employees increased by over 150, including over 500 redundancies and close to 250 recruitments (net). Acquisitions and outsourcing agreements added close to 450 employees. Product Development Services recruited close to 300 employees, mainly in offshore locations.

The 12-month rolling employee turnover stood at 11.3% (10.5) at the end of December.

Salary inflation is somewhat on the rise, especially in Sweden. In offshore countries, salary inflation is clearly above the average. Group-level salary inflation is expected to be close to 4% on average in 2018. Tieto anticipates that more than half of the salary inflation will be offset by greater offshoring and management of the age pyramid.

In Finland, Tieto reached an agreement on the national Competitiveness Pact, effective 13 January 2017. Based on the agreement, annual working time increased by around two working days in Finland.

The dynamic business environment is placing high demands on competence development and good employee experience. The main drivers for competence renewal are the digitalization of society, emergence of new business models and managing the constant need to accelerate innovation and efficiency.

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.

At Tieto, learning is seen as a continuous process that is necessary to keep up with the demands of the rapidly changing operating environment. In 2017, Tieto implemented the Learning as a Lifestyle initiative, inviting employees to be curious and constantly learn about the new trends in the IT industry. Three topics were chosen to start with: Design Thinking, DevOps and Advanced Analytics.

Other examples of development initiatives launched during the year are the Incubator programme focusing on experienced IT professionals in Poland and extensive trainee programmes in China, Poland and the Czech Republic targeted at younger generations. Overall, Tieto supports employees' growth and learning needs with multiple options, including job rotation, on-the-job learning, self-study, working on different assignments, and through various types of training and e-learning.

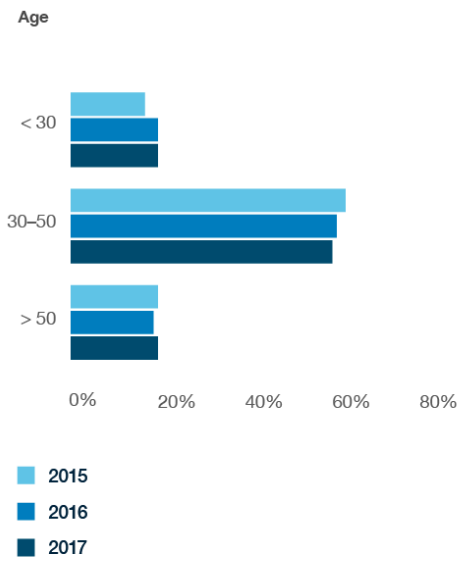
To facilitate execution of the new strategy and operating model, Tieto is fostering an Open Source culture based on openness and transparency. Open Source culture contributes to employees feeling included, empowered and able to influence their work and build an inspiring working environment. Activity 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 addition to the company's development programmes, recruitments and the acquisition of Avega strengthened competences during 2017 across different businesses. New recruitments included roles such as industry and solution consultants, architects and software developers. Being a responsible, active and engaged corporate citizen in a larger ecosystem and collaborating with the company's partners from suppliers to universities and industry networks enabled Tieto to bring in hundreds of new employees.

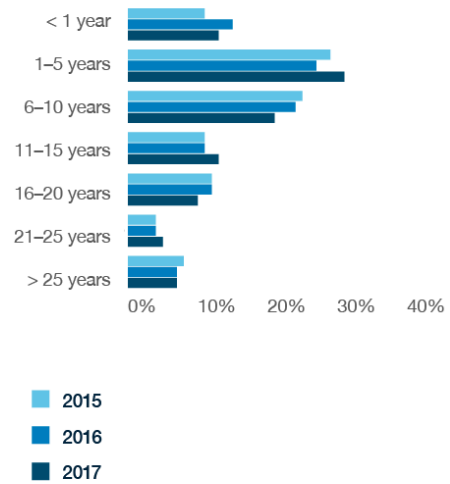
Employee engagement, as an outcome measure of the perceived Employee Experience, is measured on an annual basis through Tieto's internal employee survey VOICE. The response rate in 2017 was 84%. The overall employee engagement score, measured in autumn 2017, reached 73%, which is slightly better than the year before the score has seen positive development since 2014.

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

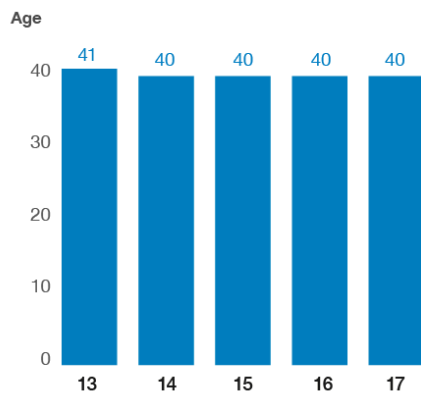
Personnel by age



Length of employment



Average age of employees, 2013–2017

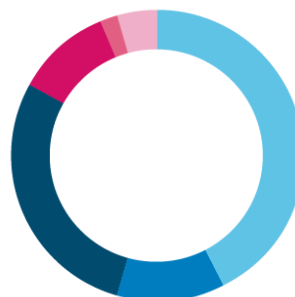


Personnel by country



- Finland 23%
- Sweden 21%
- India 18%
- Czech Republic 16%
- Latvia 4%
- Norway 4%
- Poland 4%
- China 3%
- Estonia 2%
- Austria 1%
- Lithuania 1%
- Other 3%

Personnel at 31 Dec 2017



- Technology Services and Modernization 43%
- Business Consulting and Implementation 12%
- Industry Solutions 28%
- Product Development Services 11%
- Industry Groups 2%
- Support functions and global management 4%

Non-financial information

This section describes Tieto's Corporate Responsibility (CR) activities as required in the Chapter 3a of the Finnish Accounting Act on non-financial information (NFI). The linkages between NFI areas and Tieto's CR focus areas are identified in the chart describing policies and processes. More information is available in the [Corporate Responsibility report](#).

Description of Tieto's business model

Tieto is one of the largest software and IT services companies in the Nordics. The company's industry-specific software and service capabilities support customers' business renewal based on constant innovation and efficient operations.

Tieto's role varies from advisory and design of services to building and running IT solutions. Tieto aims to co-create new solutions and innovate new data-driven business models with customers and partners. Value creation and competitiveness are based on solutions combining best-of-breed technologies with integration capabilities, industrialized service delivery and strong global delivery capability.

Description of management of NFI topics

Tieto has a systematic approach to managing Corporate Responsibility, including appropriate policies, processes, governance and organization, competences and communication.

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

Tieto's Leadership Team and the Board of Directors reviewed Corporate Responsibility matters four times in 2017. The topics included the review of the CR report, review and approval of the CR plan 2017–2020, review of NFI information including relevant CR risks, donations in 2017 and topical matters.

Tieto's CR plan 2020 comprises prioritized sustainability areas, which are developed through specific engagement with relevant stakeholders as well as internal prioritizations. Sustainability is an opportunity rather than a risk to Tieto, as digitalization is able to improve wellbeing and environmental conditions in other sectors. The sustainability areas are the material topics covering the capabilities, products, facilities and services needed to deliver services to our customers. The areas also include the sustainability impacts IT solutions can deliver to customers, such as by helping to reduce customers' CO₂ emissions, eliminate the grey economy or improve people's health and wellbeing. Each sustainability area in the plan has a public goal and target, and the action plans, implementation and reporting are run by nominated owners and partners. Sustainability area goals and results for 2017 are presented in the table in this section.

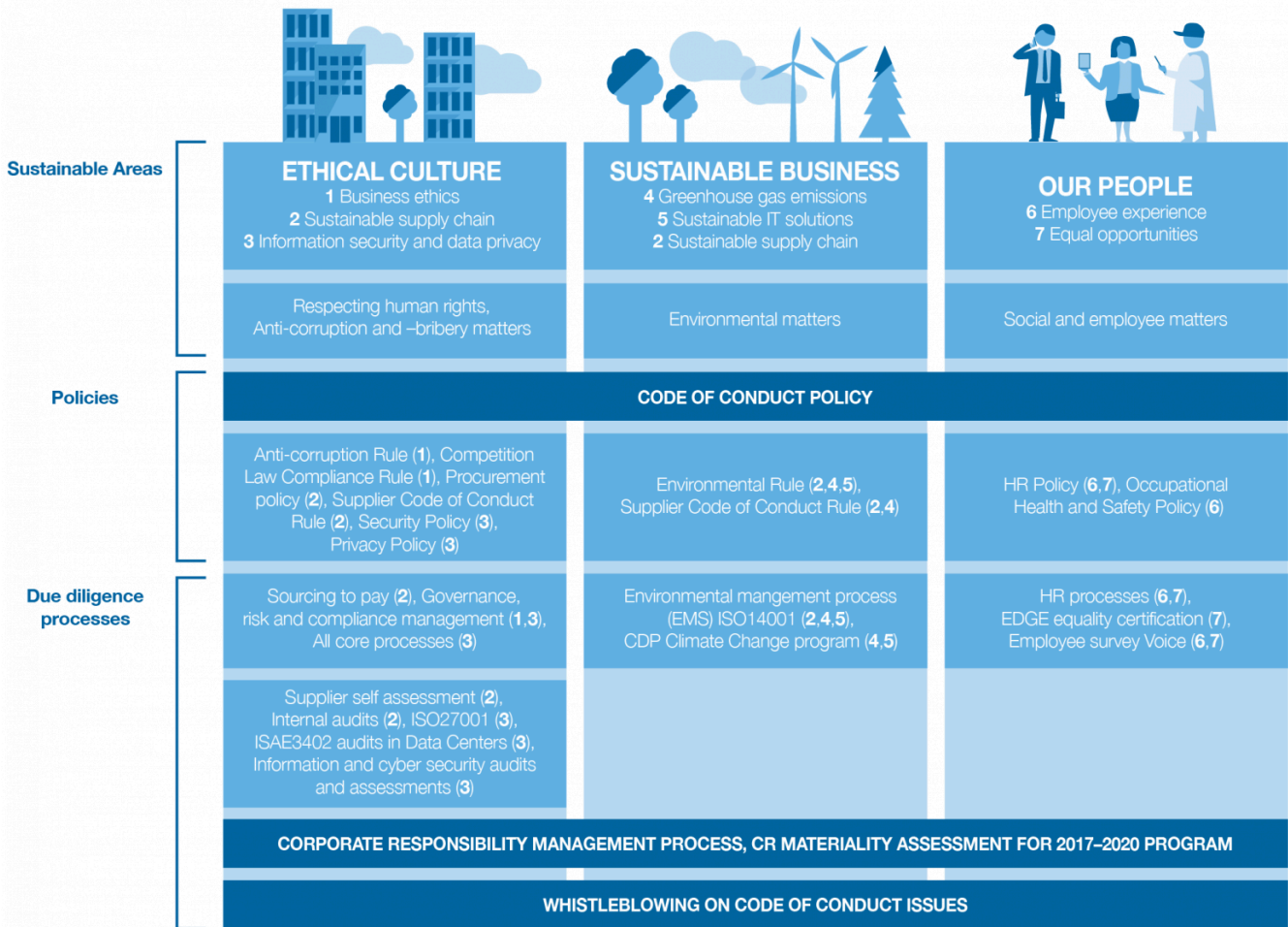
The CR plan is developed and managed according to Tieto's Corporate Responsibility management process, which follows the United Nations Global Compact Management Model and GRI standards. Linkages to United Nations Sustainable Development Goals, which are considered a strategic tool enabling corporations to contribute to more a sustainable society, are established where relevant. The management of Tieto's Sustainability areas including policies, processes, due diligence and escalation channels is illustrated in the chart in this section.

Tieto's ethical values are summarized in the [Tieto Code of Conduct policy](#), which applies to all of Tieto's employees, and a separate Supplier Code of Conduct applied to any third party contributing to the company's services, products and other business activities. Those are based on the United Nations Global Compact principles regarding human rights, labour rights, anti-corruption and the environment as well as the OECD Guidelines for Multinational Enterprises. The policies apply to all of the sustainability areas, which are also linked to other, topic-specific policies and more detailed rules. The policies cover the relevant legal, certification and other best practice requirements and are reviewed annually.

Escalations involving possible Code of Conduct breaches are reported to the General Counsel or Internal Audit. All escalations are investigated confidentially through our pre-defined process by an escalation function consisting the General Counsel, Compliance Officer, Chief Audit Executive and Head

of CR. The outcomes of all investigations are reported as part of compliance risk reporting to the Compliance and Privacy Board and Audit and Risk Committee of the Board of Directors. In addition, sustainability areas have separate channels for incident reporting and continuous improvement.

POLICIES AND PROCESSES ON NFI MATTERS



Main risks in non-financial area

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. Risk management and major risks are described in detail in the [Corporate Governance Statement](#).

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.

Tieto's risks with respect to Corporate Responsibility and NFI topics are mainly compliance risks. These risks include a reputational factor, which in addition to negative publicity could lead to score drops in Corporate Responsibility indices and deviations in audits. Severe breaches in these areas could also lead our customers, who rely on highly reputable partners, to lose their trust in us.

Fraudulent, unethical, or even illegal actions by individuals in areas such as corruption or conflict of interest can take place if anti-corruption awareness and team culture are not at a sufficiently high level. Such situations can have negative consequences ranging from disqualification from public tenders to sanctions. Compliance trainings, audits and follow-up are used to mitigate the risk.

Stress-related health issues as well as discrimination and harassment are human and labour rights related risks. From an operational perspective, deliveries could be compromised if key resources go on long sick leaves. Health issues have an impact on costs as well. Both health issues and discrimination and harassment can lead to environments where employees may not reach their full potential. Discrimination could also hinder our ability to develop solutions to societal problems.

Tieto believes that diversity in personnel, whether in terms of gender, age or cultural background, is needed to stay competitive in the fast-paced ICT industry. Diversity and inclusion are an integral part of our Open Source Culture as well as our Human Resources activities. Being able to unwind and maintain wellbeing is equally crucial. The employee health and wellbeing index is measured and follow-up actions taken where necessary to improve employee wellbeing.

Tieto's supplier base consists of direct and indirect suppliers. Supply chains may include compliance risks related to the environment, human and labour rights or even corruption. Severe breaches against international conventions in the supply chain could lead to customers deciding to terminate contracts. Tieto mitigates these risks through its Supplier sustainability programme and on-boarding practices, consisting of both compliance and audit activities.

Goals and results for each sustainability area

Sustainability area	NFI trigger	Goal	Result 2017	Target 2020	
Equal Opportunities	Social and employee matters	%ratio Completion of Code of Conduct e-learning for awareness on equality	88%	 ON SCHEDULE	100%
		Employee engagement score, %	73%	 TARGET REACHED	Long term target to be revisited 73%
Employee Experience	Social and employee matters	% of employees being always or often stressed and not being able to recover	3%	 ON SCHEDULE	Keep low
Ethical Culture	All	%ratio Completion of Code of Conduct e-learning	88%	 ON SCHEDULE	100%
Information Security and Data Privacy	Respecting human rights	Total number of substantiated complaints regarding breaches of customers' privacy and losses of customer data.	0	 TARGET REACHED	0
Sustainable Supply Chain	Respecting human rights, Anti-corruption and Bribery matters, Environmental matters	%ratio of new or renewed suppliers agreeing to Tieto's Supplier code of conduct ¹⁾	100%	 TARGET REACHED	99 %
Greenhouse Gasemissions	Environmental matters	Reduction of CO ₂ emissions from Tieto's indirect energy consumption	-44%	 ON SCHEDULE	Change to renewable electricity in Nordic data centers in 2017 -50 %
Sustainable IT Solutions	Environmental matters	ktons CO ₂ avoided by customers through use of IT services provided by Tieto	75 kton CO ₂	 ON SCHEDULE	Renewed, more accurate model with new baseline developed in 2017 Increase customers' avoided CO ₂ emissions exceeding Tieto's own CO ₂ emissions

¹⁾ Contracts made through procurement function



Shareholders' Nomination Board

In September, the shareholders who wished to participate in the work of the Shareholders' Nomination Board nominated the following members:

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

The largest shareholders were determined on the basis of the shareholdings registered in the Finnish and Swedish book-entry systems on 31 August 2017.

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 has taken steps to ensure that the principles have been 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 2017

Name	Born	Nationality	Education	Main occupation
Kurt Jofs (Chairman)	1958	Swedish	MSc. (Eng.)	Entrepreneur, investor and Board member
Harri-Pekka Kaukonen (Deputy Chairman)	1963	Finnish	DSc. (Tech.)	Professional Board member
Timo Ahopelto	1975	Finnish	MSc. (Tech.)	Entrepreneur, investor and Board member
Johanna Lamminen	1966	Finnish	DSc. (Tech.), MBA	CEO, Gasum Ltd
Sari Pajari	1968	Finnish	MSc. (Eng.)	SVP, Sales and Marketing, Metsä Board Oyj
Endre Rangnes	1959	Norwegian	BBA (Econ.)	Professional Board member
Jonas Synnergren	1977	Swedish	MSc. (Econ.)	Partner, Cevian Capital AB
Jonas Wiström	1960	Swedish	MSc. (Tech.)	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

All Board members of Tieto are independent of the company and six 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.

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.

In September, Tieto announced changes in its Leadership Team and the Financial Services industry group. Per Johanson, Executive Vice President, Financial Services, decided to pursue new opportunities outside Tieto. Christian Segersven was appointed Executive Vice President to lead Financial Services and be a member of Tieto's Leadership Team as of 1 October 2017.

Members of the Leadership Team as at 31 December 2017

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

Ari Järvelä

Executive Vice President, New Data-Driven Businesses
Born: 1969
Nationality: Finnish
Education: MSc. (Eng.)
Joined the company in 2001

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

Tom Leskinen

Executive Vice President, Product Development Services
Born: 1966
Nationality: Finnish
Education: LicSc. (Tech.)
Joined the company in 2013

Cristina Petrescu

Executive Vice President, Public, Healthcare & Welfare
Born: 1968
Nationality: Swedish
Education: MSc. (Computer Science)
Joined the company in 2002

Christian Segersven

Executive Vice President, Financial Services
Born: 1975
Nationality: Finnish
Education: MSc. (Tech.)
Joined the company in 2013

The remuneration of the Leadership Team is presented in the tables of the [Corporate Governance 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.

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 2018 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 2018. The firm of authorized public accountants

PricewaterhouseCoopers Oy has notified that KHT Tomi Hyryläinen, Authorized Public Accountant, will act as the auditor with principal responsibility.

Auditing

The AGM 2017 re-elected the firm of authorized public accountants PricewaterhouseCoopers Oy as the company's auditor for the financial year 2017. PricewaterhouseCoopers Oy notified the company that authorized public accountant Tomi Hyryläinen acts as chief auditor. In 2017, Tieto Group paid the auditors a total of EUR 0.8 (0.8) million in audit fees, of which EUR 0.8 (0.8) million to the Group's auditor PricewaterhouseCoopers Oy, and a total of EUR 0.3 (0.9) million for other services, of which EUR 0.3 (0.8) million to the Group's auditor.

Shares

Share capital and shares

Tieto Corporation's issued and registered share capital on 31 December 2017 totaled EUR 76 555 412.00 and the number of shares was 74 109 252.

Tieto's shares have no par value and their book counter value 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 26 430 registered shareholders at the end of 2017. Based on the ownership records of the Finnish and Swedish central securities depositories, 38.1% of Tieto's shares were held by Finnish and 3.7% by Swedish investors. In total, there were 24 816 retail investors in Finland and Sweden and they held 12% of Tieto's shares.

The members of the Board of Directors, the President and CEO and their close associates together held 0.1% of the shares and votes registered in the book-entry system on 31 December 2017. The President and CEO is also participating in Tieto's long-term share-based incentive plans. 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.

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 2017), 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 2017. 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. There were no flagging announcements in 2017.

Tieto is not aware of any shareholder agreements or cross-shareholdings that would limit the amount of shares available for trading. 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 2017, the number of shares in the company's or its subsidiaries' possession totalled 386 127 representing 0.5% of the total number of shares and voting rights. Related to the company's share-based reward plan, a total of 25 555 shares held by Tieto were transferred to the participants of the plan. The number of outstanding shares, excluding the treasury shares, was 73 723 125 at the end of the year.

Share-based incentives

Tieto has established several share-based incentive plans (further details available in the Financial Statements). The share rewards to be delivered to the participants will consist of shares to be acquired from the market. Thus, the incentive plans will have no dilutive effect. The company has not issued any bonds with warrants nor has any stock options programmes.

Board authorizations

The 2017 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 7 400 000 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 INFORMATION

	2017	2016	2015	2014	2013
Number of shares					
Number of shares	74 109 252	74 109 252	74 009 953	73 675 903	73 132 367
Outstanding shares ¹⁾					
At year end	73 723 125	73 697 570	73 544 869	73 165 084	72 590 573
Average	73 722 565	73 660 433	73 426 563	72 944 228	72 369 221
Share capital at year end, EUR					
	76 555 412	76 555 412	76 555 412	76 555 412	76 555 412
Per share data					
Earnings per share, EUR					
Basic	1.46	1.46	1.23	0.48	0.86
Diluted	1.46	1.46	1.23	0.48	0.86
Equity per share, EUR					
	6.45	6.62	6.57	6.44	7.08
Share price performance and trading volumes					
NASDAQ Helsinki					
Highest price of share, EUR	29.98	28.47	25.00	22.64	18.43
Lowest price of share, EUR	24.39	22.20	19.98	16.15	14.20
Average price of share, EUR	26.85	24.83	22.48	19.45	16.09
Turnover, number of shares	35 895 771	34 827 778	37 041 013	28 085 320	26 657 716
Turnover, %	48.4	47.0	50.0	38.1	36.5
NASDAQ Stockholm					
Highest price of share, SEK	289.50	275.90	246.10	207.90	155.00
Lowest price of share, SEK	232.20	205.70	183.00	142.10	123.00
Average price of share, SEK	259.19	229.09	210.32	177.45	140.05
Turnover, number of shares	2 540 715	1 802 382	1 802 615	3 138 593	1 511 176
Turnover, %	3.4	2.4	2.4	4.3	2.1
Market capitalization, EUR million					
	1 925.4	1 920.9	1 829.5	1 584.8	1 202.3
Dividends					
Dividend, EUR 1 000					
	103 212	101 001	99 290	95 177	65 369
Dividend per share, EUR					
	1.40	1.37	1.35	1.30	0.90
Payout ratio, %					
	95.9	93.8	109.8	270.8	104.7
Price-weighted ratios					
NASDAQ Helsinki					
Price per earnings ratio (P/E)	18	18	20	45	19
Dividend yield, %	5.4	5.3	5.5	6.0	5.5
NASDAQ Stockholm					
Price per earnings ratio (P/E)	18	18	20	45	19
Dividend yield, %	5.4	5.3	5.5	6.0	5.4

¹⁾ Adjusted for shares held by the company

Major shareholders on 31 December 2017

	Shares	%
1 Cevian Capital ¹⁾	11 066 684	14.9
2 Solidium Oy	7 415 418	10.0
3 Silchester International Investors LLP ²⁾	7 401 027	10.0
4 Swedbank Robur fonder	1 883 968	2.5
5 Ilmarinen Mutual Pension Insurance Co.	1 571 423	2.1
6 Elo Pension Co.	838 648	1.1
7 The State Pension fund	773 000	1.0
8 Nordea Funds	758 259	1.0
9 OP-Finland Value Fund	675 050	0.9
10 Svenska litteratursällskapet i Finland r.f.	541 345	0.7
Top 10 shareholders total	32 924 822	44.4
- of which nominee registered	20 351 679	27.5
Nominee registered other	24 968 124	33.7
Others	16 216 306	21.9
Total	74 109 252	100.0

Based on the ownership records of Euroclear Finland Oy and Euroclear Sweden AB.

¹⁾ Based on the ownership records of Euroclear Finland Oy, Cevian Capital's holding on 31 August 2017 was 11 066 684 shares, representing 14.9% of the shares and voting rights.

²⁾ 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.

Number of shares	Shareholders		Shares	
	No	%	No	%
1 - 100	6 208	37.6	345 997	0.5
101 - 500	6 530	39.6	1 714 897	2.3
501 - 1 000	1 878	11.4	1 445 035	1.9
1 001 - 5 000	1 551	9.4	3 316 236	4.5
5 001 - 10 000	165	1.0	1 157 943	1.6
10 001 - 50 000	101	0.6	2 247 258	3.0
50 001 - 100 000	23	0.1	1 515 929	2.0
100 001 - 500 000	25	0.2	5 214 046	7.0
500 001 -	10	0.1	57 141 351	77.1

Ownership structure on 31 December 2017, % of shares



- Corporations 12.5%
- Finance and insurance institutions 5.0%
- Public organizations 5.6%
- Households 10.8%
- Non-profit organizations 4.2%
- Foreign 0.7%
- Nominee registered 61.2%

Dividend

The distributable funds of the parent company amount to EUR 585.5 million, of which net profit for the current year amounts to EUR 103.5 million. The Board of Directors proposes a dividend of EUR 1.20 (1.15) per share for 2017. In light of the company's strong cash flow and targeted capital structure, an additional dividend of EUR 0.20 (0.22) 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, 26 March 2018.

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 new EU General Data Protection Regulation will take effect in May 2018. The new GDPR-based requirements may result in an incremental increase in offering development costs for Tieto's software-based solutions, while based on several customer agreements Tieto is entitled to invoice its customers for additional development work. Additionally, the new regulation is opening up new opportunities, such as for Tieto's security and application services.

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, with Product Development Services having the highest customer concentration in the company. However, the share has decreased by several percentage points during the past years.

Typical risks faced by the IT service industry relate to the development and implementation of new technologies and software. In Tieto's case these relate to both own software development and implementation of third-party software for service delivery. Furthermore, additional technology licence fees, the quality of deliveries and related project overruns and penalties pose potential risks.

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

Full-year outlook for 2018

Tieto expects its adjusted¹⁾ full-year operating profit (EBIT) to increase from the previous year's level (EUR 161.5 million ²⁾ in 2017).

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

²⁾ subject to revision according to IFRS 15 restatement

Financial calendar 2018

6 February

Interim report 4/2017 and financial statements bulletin for 2017 (8.00 am EET)

By 28 February

Annual Report 2017 on Tieto's website

22 March

Annual General Meeting

Tieto will publish three interim reports:

26 April

Interim report 1/2018 (8.00 am EET)

20 July

Interim report 2/2018 (8.00 am EET)

24 October

Interim report 3/2018 (8.00 am EET)

Reported alternative performance measures

Tieto uses “Adjusted operating profit (EBIT)” as an alternative performance measure to better reflect its operational business performance and to enhance comparability between financial periods. This alternative performance measure is reported in addition to, but not as a substitute for, the performance measures reported in accordance to IFRS. Adjusted items include restructuring costs, capital gains/losses, goodwill impairment charges and other items.

EUR million	2017	2016
Operating profit (EBIT)	139.2	140.8
+ restructuring costs	22.7	14.8
+ capital losses	0.3	0.2
+/- M&A related items	-0.2	-1.9
+/- other	-0.5 ^{1) 4)}	-1.7 ^{2) 3)}
Adjusted operating profit (EBIT)	161.5	152.2

¹⁾ In Sweden one pension plan treated as a defined benefit plan was closed and a new contribution plan was established. Due to this the net costs of EUR 1.1 million has been recognized.

Includes also EUR 1.0 million write-off related to obsolete assets replaced by new technologies.

²⁾ value added tax correction from previous years EUR -1.1 million in Russia.

³⁾ 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 the Annual report 2016. “Other items” also includes EUR 1.5 million in one-off write-offs related to obsolete assets replaced by new technologies.

⁴⁾ In Finland, active employees having defined benefit pension plans have, as of 1 Jan 2017, had the option to transfer their defined benefit pensions to the defined contribution plan and some active employees decided to make that change. Due to this, a settlement gain of EUR 2.4 million has been recognized in personnel costs in December 2017. More information will be available in the Annual report 2017.

Five-year key figures

FIVE-YEAR FIGURES

	2017	2016	2015	2014	2013
Net sales, EUR million	1 543.2	1 492.6	1 460.1	1 522.5	1 606.8
Operating profit (EBIT), EUR million	139.2	140.8	125.2	61.1	85.7
Operating margin, %	9.0	9.4	8.6	4.0	5.3
Profit before taxes, EUR million	135.8	136.8	119.3	56.6	79.1
% of net sales	8.8	9.2	8.2	3.7	4.9
Earnings per share, EUR					
Basic	1.46	1.46	1.23	0.48	0.86
Diluted	1.46	1.46	1.23	0.48	0.86
Equity per share, EUR	6.45	6.62	6.57	6.44	7.08
Total assets, EUR million	1 148.0	1 074.5	1 086.3	1 031.5	1 094.6
Return on equity, 12-month rolling, %	22.4	22.1	19.0	7.1	12.0
Return on capital employed, 12-month rolling, % ¹⁾	20.5	21.6	20.4	9.8	13.5
Equity ratio, %	42.6	47.3	46.2	47.8	49.3
Gearing, %	32.7	22.5	2.7	-12.6	3.0
Capital expenditure, EUR million	50.8	61.6	50.5	42.5	68.3
% of net sales	3.3	4.1	3.5	2.8	4.3
Acquisitions, EUR million	49.3	37.6	86.2	1.1	3.4
Average number of employees	13 889	13 472	13 184	14 007	15 170

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.

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

KEY FIGURES BY QUARTER

Unaudited	2017 ¹⁾	2017	2017	2017	2017	2016 ¹⁾	2016	2016	2016	2016
	1-12	10-12	7-9	4-6	1-3	1-12	10-12	7-9	4-6	1-3
Net sales, EUR million	1 543.2	409.6	354.9	385.5	393.2	1 492.6	403.6	340.5	381.0	367.5
Operating profit (EBIT), EUR million	139.2	48.0	41.1	28.2	21.9	140.8	45.1	35.1	32.3	28.3
Profit before taxes, EUR million	135.8	46.4	40.9	27.6	20.9	136.8	44.3	34.1	30.7	27.7
Earnings per share, EUR										
Basic	1.46	0.50	0.46	0.28	0.21	1.46	0.46	0.37	0.33	0.29
Diluted	1.46	0.50	0.46	0.28	0.21	1.46	0.46	0.37	0.33	0.29
Equity per share, EUR										
Equity ratio, %	42.6	42.6	44.5	40.6	39.2	47.3	47.3	44.4	42.2	38.9
Interest-bearing net debt, EUR million	155.7	155.7	161.4	164.6	38.0	109.7	109.7	136.4	103.3	-21.3
Gearing, %	32.7	32.7	36.1	39.8	9.5	22.5	22.5	30.6	24.7	-5.3
Capital expenditure, EUR million	50.8	11.4	9.1	21.0	9.3	61.6	24.4	16.0	11.8	9.4
Acquisitions, EUR million	49.3	49.3	-	-	-	37.6	0.3	37.3	-	-
Personnel										
At end of period	14 329	14 329	13 851	13 754	13 822	13 876	13 876	13 758	13 381	13 200
Average, cumulative	13 889	13 889	13 827	13 821	13 899	13 472	13 472	13 339	13 229	13 173

¹⁾ Based on audited financial statements

See calculation of key figures on page Calculation of key figures

Calculation of key figures

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, %	=	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}} \times 100$	

Consolidated financial statements

INCOME STATEMENT (IFRS)

EUR million	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Net sales	1	1 543.2	1 492.6
Other operating income	3	17.4	19.8
Cost of sales		-235.0	-232.8
Employee benefit expenses	8, 9	-873.1	-827.1
Depreciation and amortization	14, 15	-54.7	-53.9
Impairment loss		-	-
Other operating expenses	4	-261.8	-261.0
Share of profit from investments accounted for using the equity method	29	3.2	3.2
Operating profit		139.2	140.8
Interest and other financial income	6	1.5	2.1
Interest and other financial expenses	6	-4.7	-5.0
Net exchange losses and gains	6	-0.2	-1.1
Profit before taxes		135.8	136.8
Income taxes	12	-28.0	-29.6
Net profit for the financial year		107.8	107.2
Net profit for the period attributable to			
Shareholders of the Parent company		107.8	107.2
Non-controlling interest		0.0	0.0
		107.8	107.2
Earnings per share attributable to the shareholders of the Parent company, EUR	7		
Basic		1.46	1.46
Diluted		1.46	1.46
Statement of comprehensive income, EUR million			
Net profit for the period		107.8	107.2
Items that may be reclassified subsequently to profit or loss			
Translation difference		-19.0	-2.1
Cash flow hedges (net of tax)		-	-0.2
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain/loss on post employment benefit obligations (net of tax)		-2.4	-2.1
Total comprehensive income		86.4	102.8
Total comprehensive income attributable to			
Shareholders of the Parent company		86.4	102.8
Non-controlling interest		0.0	0.0
		86.4	102.8

Notes are an integral part of these consolidated financial statements.

COMMENTS TO THE INCOME STATEMENT

Net sales increased by 3.4% to EUR 1 543.2 (1 492.6) million, growth of 4.1% in local currencies. In IT services, net sales were up by 3.0%, in local currencies up by 3.6%. In Product Development Services, sales increased by 7.9%, in local currencies up by 9.6%. Acquisitions added EUR 17 million in sales, affecting Industry Solutions and Business Consulting and Implementation. Currency fluctuations had a negative impact of EUR 10 million on sales, mainly due to the weaker Swedish Krona.

Operating profit (EBIT) amounted to EUR 139.2 (140.8) million, representing a margin of 9.0% (9.4). Operating profit was strained by restructuring costs related to the automation and efficiency improvement programme initiated in January 2017.

The efficiency improvement programme had an impact of around EUR 20 million on the cost base in the full year, whereas improvement was curbed by salary inflation of around EUR 18 million. Offering development costs remained at the previous year's level at close to EUR 75 million.

Employee benefit expenses were up by 6% and represented 56.6% (55.4) of net sales. Employee benefit expenses include costs from personnel restructuring of EUR 21.9 (10.6) million. The performance-based incentive accruals, including both short-term and long-term incentives, were EUR 37.6 (25.6) million. The average number of full-time employees was 13 889 (13 472).

Net financial expenses stood at EUR 3.4 (4.0) million. Net interest expenses were EUR 2.1 (2.1) million and net losses from foreign exchange transactions EUR 0.2 (1.1) million. Other financial income and expenses amounted to EUR -1.1 (-0.8) million.

Tax expenses reported for the year include EUR 22.4 million payable on the profit for the year and EUR 6.5 million negative from the change in deferred taxes. Tax rate was 20.0% in Finland and 22.0% in Sweden.

Cost structure, %	2017	2016
Cost of sales	16.5	16.9
Employee benefit expenses	61.3	60.2
Other operating expenses	18.4	19.0
Depreciation and amortization	3.8	3.9
Total	100.0	100.0

BALANCE SHEET (IFRS)

EUR million	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Goodwill	14, 30, 31	441.3	409.7
Other intangible assets	14	51.1	52.3
Property, plant and equipment	15	94.9	94.0
Investments accounted for using the equity method	29	16.3	16.5
Deferred tax assets	13	25.7	29.9
Finance lease receivables	23	0.8	2.2
Other interest-bearing receivables		0.4	0.0
Available-for-sale financial assets	16	0.5	0.7
Total non-current assets		631.0	605.3
Current assets			
Trade and other receivables	17	420.7	390.3
Pension benefit assets	11	7.4	7.4
Finance lease receivables	23	2.0	3.5
Other interest-bearing receivables		0.0	0.3
Current income tax receivables		8.7	11.0
Cash and cash equivalents	18	78.2	56.7
Total current assets		517.0	469.2
Total assets		1 148.0	1 074.5
EQUITY AND LIABILITIES			
Equity			
Share capital	19	76.6	76.6
Share issue premiums and other reserves	19	42.6	43.4
Share issue based on stock options	19	-	-
Retained earnings		356.0	368.1
Parent shareholders' equity		475.2	488.1
Non-controlling interest		0.4	-
Total equity		475.6	488.1
Non-current liabilities			
Loans	20, 23	102.5	103.8
Deferred tax liabilities	13	38.3	34.9
Provisions	22	2.6	5.4
Pension obligations	11	11.9	13.9
Other non-current liabilities		3.8	0.2
Total non-current liabilities		159.1	158.2
Current liabilities			
Trade and other payables	24	362.5	344.6
Current income tax liabilities		5.9	3.5
Provisions	22	10.3	11.5
Loans	20, 23	134.6	68.6
Total current liabilities		513.3	428.2
Total equity and liabilities		1 148.0	1 074.5

Notes are an integral part of these consolidated financial statements.

COMMENTS TO THE BALANCE SHEET

Assets

The consolidated balance sheet totalled EUR 1 148.0 (1 074.5) million, up by 6.8%. Goodwill increased to EUR 441.3 (409.7) million. Acquisitions added EUR 40.6 million to goodwill.

Direct capital expenditure on fixed assets including new finance lease agreements amounted to EUR 50.8 (61.6) million.

Distribution of total assets

31 Dec, %	2017	2016
Goodwill	38.4	38.1
Other intangible assets	4.4	4.9
Tangible assets	8.3	8.7
Other assets	42.0	43.0
Cash and cash equivalents	6.8	5.3
Total	100.0	100.0

Equity and liabilities

The total equity amounted to EUR 475.6 (488.1) million. The net profit for the year increased equity by EUR 107.8 million and dividend payment decreased equity by EUR 101.0 million.

EUR 2.5 (5.5) million in finance lease liabilities, EUR 2.8 (5.7) million in finance lease receivables, EUR 0.5 (0.3) million in other interest-bearing receivables and EUR 78.2 (56.7) million in cash and cash equivalents.

The equity ratio was 42.6% (47.3). Gearing increased to 32.7% (22.5). Interest-bearing net debt totalled EUR 155.7 (109.7) million, including EUR 234.7 (166.9) million in interest-bearing debt,

Distribution of total equity and liabilities

31 Dec, %	2017	2016
Share capital	6.7	7.1
Other parent shareholders' equity	34.8	38.3
Interest-bearing liabilities	20.7	16.0
Non-interest-bearing debt	37.8	38.6
Total	100.0	100.0

STATEMENT OF CASH FLOW (IFRS)

EUR million	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Cash flow from operations			
Net profit		107.8	107.2
Adjustments			
Depreciation, amortization and impairment	14, 15	54.7	53.9
Share-based payments		1.9	1.3
Profit/loss on sales of fixed assets and shares	3, 4	0.0	0.1
Share of profit from investments accounted for using the equity method	29	-3.2	-3.2
Other adjustments		-5.4	-7.7
Net financial expenses	6	3.4	4.0
Income taxes	12	28.0	29.6
Change in net working capital			
Change in current receivables		-27.9	-40.9
Change in inventories		0.0	0.0
Change in current non-interest-bearing liabilities		12.5	-10.7
Cash generated from operations		171.8	133.6
Financing income received under leases		0.1	0.2
Interest income received		1.4	2.3
Interest expenses paid		-3.5	-4.2
Other financial income received		9.8	9.8
Other financial expenses paid		-15.2	-10.7
Dividends received from investments accounted for using the equity method	29	3.5	3.8
Income taxes paid		-16.9	-37.6
Net cash flow from operations		151.0	97.2
Cash flow from investing activities			
Acquisition of Group companies and business operations, net of cash acquired	30	-43.7	-32.3
Capital expenditure		-47.0	-61.7
Disposal of Group companies and business operations, net of cash disposed		-0.3	0.0
Sales of fixed assets		0.4	0.1
Sales of available-for-sale financial assets		0.0	-
Change in loan receivables		2.7	2.5
Total net cash used in investing activities		-87.9	-91.4
Cash flow from financing activities			
Dividends paid		-101.0	-99.3
Exercise of stock options		-	0.8
Payments of finance lease liabilities	21	-1.0	-1.3
Proceeds from short-term borrowings	21	1 657.4	625.3
Repayments of short-term borrowings	21	-1 595.8	-628.2
Proceeds from long-term borrowings	21	0.5	-
Repayments of long-term borrowings	21	-0.3	-1.5
Total net cash used in financing activities		-40.2	-104.2
Change in cash and cash equivalents		22.9	-98.4
Cash and cash equivalents at the beginning of period	18	56.7	156.2
Foreign exchange differences		-1.4	-1.1
Change in cash and cash equivalents		22.9	-98.4
Cash and cash equivalents at the end of period	18	78.2	56.7

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 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 gain 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)	27						-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

EUR million	Note	Parent shareholders' 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	Retained earnings	Total	Non-controlling interest	Total equity
At 31 Dec 2016		76.6	43.4	0.0	-11.6	-52.3	-	12.8	419.2	488.1	-	488.1
Comprehensive income												
Net profit for the period									107.8	107.8	0.0	107.8
Other comprehensive income												
Actuarial loss on post employment benefit obligations (net of tax)									-2.4	-2.4		-2.4
Translation difference from the net investment in Swedish subsidiaries (net of tax)									0.4	0.4		0.4
Translation difference			-0.8			-26.2			7.6	-19.4		-19.4
Cash flow hedges (net of tax)	27									-		-
Total comprehensive income			-0.8			-26.2			113.4	86.4	0.0	86.4
Transactions with owners												
Share-based payments recognized against equity	8								1.7	1.7		1.7
Dividend									-101.0	-101.0		-101.0
Share subscriptions based on stock options										0.0		0.0
Non-controlling interest											0.4	0.4
Total transactions with owners		0.0	0.0	0.0	0.0			0.0	-99.3	-99.3	0.4	-98.9
Impact on investments accounted for using the equity method												
									0.0	0.0		0.0
At 31 Dec 2017		76.6	42.6	0.0	-11.6	-78.5	-	12.8	433.3	475.2	0.4	475.6

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 (business identity code 0101138-5) is a Finnish public limited IT service and software company organized under the laws of Finland and domiciled in Espoo: Keilalahdentie 2-4, 02101 Espoo, Finland. The company is listed on NASDAQ Helsinki and Stockholm. The Board of Directors approved the consolidated financial statements to be published on 6 February 2018. 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 2016. The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12, and
- Disclosure initiative – amendments to IAS 7.

The adoption of the amendments to IAS 12 did not have any impact on the current period or any prior period and is not likely to affect future periods. The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see note 21.

New standards and interpretations not yet adopted:

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 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 following aspects of Financial Instruments accounting:

- Recognition and derecognition
- Classification and measurement, including impairment
- Hedge accounting

The Group has adopted the standard on its mandatory date at 1 January 2018.

The Group does not expect IFRS 9 implementation to have a material impact on its Statement of Financial Position or Statement of Profit or Loss and Other Comprehensive Income.

With respect to classification and measurement, the Group has evaluated the asset groups within the scope of IFRS 9 using both business model and contractual cash flow tests. Due to the results of these tests, the Group does not expect to change its accounting treatment for most of its assets, except for trade account receivables sold via non-recourse factoring, which are held to sell within the business model and hence will be accounted at fair value through profit or loss (FVTPL), instead of amortized cost, and presented separately in the Statement of Financial Position.

There will be no impact on the Group's accounting for financial liabilities.

With regards to the new impairment methodology (from incurred to expected credit losses), the Group has preliminarily estimated that if the IFRS 9 methodology had already been implemented in the 2016 reporting period, the overall result at last year-end would have been as follows:

EUR million	As reported in 2016 Financial Statement	If IFRS 9 had been applied to the same balances ¹⁾
Expected credit losses on trade receivables	1.5	-0.9
Expected credit losses on contract assets	-	-0.2

¹⁾ using only historical loss experience, since making any further adjustments would be using hindsight

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 Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings as at 1 January 2018.

Further information on the IFRS 9 requirements and the Group's interpretation can be found in text below.

Classification & Measurement

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.

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.

Impairment

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. IFRS 9 also widens the scope of assets that are now subject to impairment, including also Contract Assets. Due to this, the Group believes that impairment losses are likely to become more volatile, but not necessarily higher, for assets in scope of IFRS 9 impairment.

The Group expects to have the most significant impact from impairment calculations for Trade receivables.

The Group has performed its external customer segmentation, based on customer location and industry, so that each customer segment would bear similar credit characteristics. When calculating ECL, the Group will take into consideration historical loss rates for each receivables age band, calculated based on customer payment behavior during past 3 years, rates then being adjusted by Groups assessment of overall market situation in each customer country group.

The impact from ECL for Contract assets is expected to be of a low value. The Group expects to use the same customer segmentation and rates as applied to Trade receivables not yet due.

The Group has decided to calculate Lifetime expected credit losses for its Lease receivables balances, but the effect of such policy choice and overall ECL for this position is also expected to be of a low value.

Hedge accounting

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. 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.

Disclosures and Transition

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 15 Revenue from Contracts with Customers

IFRS 15 is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The Group will adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using the retrospective approach.

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

Management has assessed the effects of applying the new standard and does not expect it to have a material impact on the Group's financial statements. The impact on 2017 net sales is expected to be less than EUR 0.5 million.

The assessment focused on the following areas that were expected to be affected by IFRS 15:

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 set-up activities do not result in the transfer of a promised good or service and are not identified as a performance obligation to the customer. The

costs of set-up activities are not expensed but recognized as an asset under IFRS 15, provided that the defined criteria are met. Based on the assessment, the proportion of set-up activities in current transition contracts is not significant, and therefore the impact on the Group's financial statements is not expected to be material.

Software solutions

- Software licences and other goods. Currently 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 typically include software licences, implementation and maintenance. Depending on the customization and integration level the software licences 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 licence is not functional apart from service. The application of IFRS 15 may result in some alignments in identification of performance obligations that could partly affect the timing of the recognition of licence revenue, but no material impact is expected.
- Software as a service (SaaS). The Group has recently signed several SaaS contracts with customers. The contracts comprise implementation project and continuing service contracts. Based on the assessment, the implementation projects for these contracts include set-up activities and implementation services covering customer onboarding to a standardized, module-based software with some customization that is not regarded as significant. The implementation services are identified as distinct performance obligations from continuing SaaS service. Set-up activities are accounted for similarly as for transition in connection to the operating services. Set-up in current SaaS contracts is not expected to have a material impact on the Group's financial statements.

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. Based on the assessment, the warranties are assurance-type warranties. Currently the warranties for time- and material-based contracts 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. The impact on the Group's financial statements will not be material.

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. The most usual variable elements in the transaction price consist of different types of discounts. Based on the assessment, no major change in timing of the revenue is expected.

Overall, the timing of 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 a 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 that the defined criteria in IFRS 15 are met. The Group has 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 an alternative use for the Group, in which case there is an enforceable right to payment for work completed to date.

When using the retrospective approach, 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 permitted by IFRS 15 when an entity applies the standard retrospectively.

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 180.8 million, see note 32.

However, the group has not yet assessed what adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognized on adoption of the new standard and how this may affect the group's profit or loss and classification of cash flows going forward.

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.

Other standards

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.

For internal, long-term loans to subsidiaries, when classified as net investment in foreign operation as per IAS 21, all related unrealized foreign exchange gains and losses are recognized in profit or loss statement in the separate financial statements. In consolidated financial statements, such exchange differences are recognized initially in the other comprehensive income and reclassified from equity to profit or loss on disposal of net investment.

Other 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, tax losses carried forward 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	3–10
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. Assets procured under finance lease agreements are capitalized as fixed assets and depreciated during the estimated useful lives.

The group applies the following economic lives:

	Years
Buildings and structures	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 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

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.

1. Financial assets and liabilities at fair value through profit or loss

The valuation method is described in the footnote of Note 27. 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.

2. Loans and receivables

Loans and receivables are subsequently carried at amortized cost, using the effective interest method.

3. 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.

4. 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

1. 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 reorganization
4. the disappearance of an active market for that financial asset because of financial difficulties.

Possible impairment is booked in the income statement.

2. 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 fair values of various derivative instruments used for hedging purposes are disclosed in note 26. Movements on the hedging reserve in other comprehensive income are also attached to the note 26.

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	31
Deferred income taxes	13
Share-based payments	10
Employee benefits	11
Fair value of derivatives and other financial instruments	26-27

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.

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	2017 1-12	2016 1-12	Change %
Technology Services and Modernization	771	762	1
Business Consulting and Implementation	150	139	8
Industry Solutions	496	475	5
Product Development Services	127	117	8
Group total	1 543	1 493	3

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	2017 1-12	2016 1-12	Change %
Finland	676	674	0
Sweden	599	566	6
Norway	161	159	2
Other	107	94	15
Group total	1 543	1 493	3

In Finland, IT services sales grew by 0.2% in 2017.

In Sweden, growth in local currencies was 7.7%. IT services grew by 8.0% in local currencies.

In Norway, growth in local currencies was 2.0%.

Customer sales by industry group

EUR million	2017 1-12	2016 1-12	Change %
Financial Services	385	370	4
Public, Healthcare and Welfare	502	479	5
Industrial and Consumer Services	531	527	1
Product Development Services	127	117	8
Group total	1 543	1 493	3

Customer sales to the telecom sector were EUR 240 (232) million.

Revenues derived from any single external customer during 2017 or 2016 did not exceed the 10% level of the total net sales of the Group.

Operating profit (EBIT) by service line

EUR million	2017 1-12	2016 1-12	Change %
Technology Services and Modernization	84.8	89.0	-4.8
Business Consulting and Implementation	8.0	4.1	93.0
Industry Solutions	55.4	55.2	0.2
Product Development Services	12.3	10.9	13.3
Support Functions and Global Management	-21.2	-18.5	-14.7
Operating profit (EBIT)	139.2	140.8	-1.1

Operating margin (EBIT) by service line

%	2017 1-12	2016 1-12	Change pp
Technology Services and Modernization	11.0	11.7	-0.7
Business Consulting and Implementation	5.3	3.0	2.3
Industry Solutions	11.2	11.6	-0.5
Product Development Services	9.7	9.3	0.5
Operating margin (EBIT)	9.0	9.4	-0.4

Adjusted operating profit (EBIT) by service line

EUR million	2017 1-12	2016 1-12	Change %
Technology Services and Modernization	95.8	92.4	3.7
Business Consulting and Implementation	7.2	1.7	316.9
Industry Solutions	58.7	59.2	-0.9
Product Development Services	12.6	11.1	14.1
Support Functions and Global Management	-12.8	-12.2	-5.2
Operating profit (EBIT)	161.5	152.2	6.1

Adjusted operating margin (EBIT) by service line

%	2017 1-12	2016 1-12	Change pp
Technology Services and Modernization	12.4	12.1	0.3
Business Consulting and Implementation	4.8	1.2	3.5
Industry Solutions	11.8	12.5	-0.6
Product Development Services	10.0	9.4	0.5
Operating margin (EBIT)	10.5	10.2	0.3

Personnel by service line

	End of period			Average		
	2017 1-12	Change %	Share %	2016 1-12	2017 1-12	2016 1-12
Technology Services and Modernization	6 108	-3.6	43	6 338	6 144	6 159
Business Consulting and Implementation	1 728	25.6	12	1 376	1 422	1 367
Industry Solutions	4 070	1.1	28	4 024	4 029	3 813
Product Development Services	1 532	23.2	11	1 243	1 414	1 222
Service Lines total	13 438	4	94	12 981	13 009	12 560
Industry Groups	279	7	2	260	261	272
Support Functions and Global Management	612	-4	4	635	619	641
Group total	14 329	3	100	13 876	13 889	13 472

Personnel by country

	End of period			Average		
	2017 1-12	Change %	Share %	2016 1-12	2017 1-12	2016 1-12
Finland	3 364	-5	23	3 552	3 395	3 586
Sweden	3 036	13	21	2 698	2 733	2 583
India	2 571	3	18	2 503	2 514	2 379
Czech Republic	2 254	0	16	2 247	2 243	2 145
Latvia	612	-6	4	649	629	664
Norway	600	-6	4	636	611	607
Poland	538	30	4	413	482	394
China	460	51	3	305	387	280
Estonia	274	-2	2	280	291	256
Austria	134	-3	1	138	135	130
Lithuania	106	7	1	99	98	111
Other	381	7	3	357	370	337
Group total	14 329	3	100	13 876	13 889	13 472
Onshore countries	7 350	2	51	7 233	7 086	7 117
Offshore countries	6 979	5	49	6 643	6 803	6 355
Group total	14 329	3	100	13 876	13 889	13 472

Non-current assets by country

EUR million	2017 31 Dec	2016 31 Dec	Change %
Finland	84.6	85.9	-2
Sweden	42.8	39.3	9
Norway	12.0	15.4	-22
Other	6.5	5.7	14
Total non-current assets	145.9	146.4	-0

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

EUR million	2017	2016	Change
	1-12	1-12	%
Technology Services and Modernization	32.7	35.2	-7
Business Consulting and Implementation	0.1	0.1	-
Industry Solutions	0.9	0.8	15
Product Development Services	0.1	0.0	91
Support Functions and Global Management	5.7	3.7	56
Group total	39.5	39.8	-1

Amortization on allocated intangible assets from acquisitions by service line

EUR million	2017	2016	Change
	1-12	1-12	%
Technology Services and Modernization	-	-	-
Business Consulting and Implementation	0.5	0.4	23
Industry Solutions	3.7	2.8	32
Product Development Services	-	-	-
Support Functions and Global Management	-	-	-
Group total	4.3	3.3	31

Amortization on other intangible assets by service line

EUR million	2017	2016	Change
	1-12	1-12	%
Technology Services and Modernization	8.8	8.9	-2
Business Consulting and Implementation	0.1	0.1	-14
Industry Solutions	0.6	0.2	142
Product Development Services	0.0	0.0	-
Support Functions and Global Management	1.5	1.6	-10
Group total	10.9	10.8	1

2. PERCENTAGE OF COMPLETION

EUR million	31 Dec 2017	31 Dec 2016
Income statement related items		
Contract sales recognized under percentage of completion accounting during the financial year	108.1	113.3
Other sales	1 435.1	1 379.3
Net sales	1 543.2	1 492.6
Accumulated amount recognized from percentage of completion based contract sales since inception for contracts open at the end of the financial year	185.5	175.5
Balance sheet related items		
Accounts receivables related to percentage of completion based contract sales	22.8	27.4
Unbilled related to percentage of completion based contract sales less recognized losses	18.0	20.3
Gross amounts due from customers related to work in progress contracts	40.8	47.7
Unearned related to percentage of completion based contract sales less recognized losses	8.6	15.2

3. OTHER OPERATING INCOME

EUR million	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Gain on sales of fixed assets		0.3	0.1
Gain on sales of shares and businesses		-	0.0
Rental income		2.7	1.4
Government grants released		0.4	4.0
Ineffectiveness on cash flow hedges	27	-	0.0
Other exchange rate gains on derivatives		3.7	5.9
Other operating income		10.3	8.4
		17.4	19.8

EUR 0.0 million (EUR 3.3 million in 2016) of government grants concerns conditional obligation to return. There has been no unfulfilled conditions in 2017 or 2016.

4. OTHER OPERATING EXPENSES

EUR million	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Rents, licences and maintenance related to software		61.6	58.5
Data and phone communication		11.4	11.1
ICT purchases and services		37.4	29.9
Advertising and marketing		6.6	7.5
Travelling		19.4	21.5
Training		6.0	6.5
Consulting		24.2	24.8
Fees to auditors		1.1	1.7
Premises related		70.5	71.8
Ineffectiveness on cash flow hedges	27	-	-
Other exchange rate losses on derivatives		1.2	3.9
Loss on sales of fixed assets and shares		0.0	0.0
Other operating expenses		22.4	23.8
		261.8	261.0
Fees to auditors			
PwC			
Audit fees		0.8	0.8
Tax consultation		0.1	0.6
Other services		0.2	0.2
		1.1	1.6
Other auditing firms			
Audit fees		0.0	0.0
Tax consultation		0.0	0.0
Other services		0.0	0.1
		0.0	0.1

PricewaterhouseCoopers Oy has provided non-audit services to entities of Tieto Group in total 231 thousand euros during the financial year 2017. These services included auditors's statements (1 thousand euros) and other services (230 thousand euros).

5. DEVELOPMENT COSTS

Tieto's offering development costs remained at the previous year's level at close to EUR 75 million in 2017, representing 5.0% of Group sales (EUR 75 million in 2016, representing 5.0% of net sales). These costs comprise service and solution development focusing on, for example, industry-specific software, 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. 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 2017 or 2016.

6. FINANCIAL INCOME AND EXPENSES

31 Dec 2017 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	-	-	-4.9	0.0	-	-4.9
Loans and receivables	1.5	-	4.7	-	-	6.2
Available-for-sale financial assets	-	-	-	-	-0.1	-0.1
Financial liabilities measured at amortized cost	-	-3.6	-	-	-1.0	-4.6
Total according to IAS 39 classification	1.5	-3.6	-0.2	0.0	-1.1	-3.4
Pension net liability	-	0.0	-	-	-	0.0
Total in income statement	1.5	-3.6	-0.2	-	-1.1	-3.4

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

Exchange rate gains and losses included in the operating profit were EUR 1.5 million in 2017 (EUR 0.8 million in 2016).

7. EARNINGS PER SHARE

	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Net profit for the period attributable to the shareholders of the Parent company (EUR million)	107.8	107.2
Earnings per share (EUR)		
Basic	1.46	1.46
Diluted	1.46	1.46
Number of shares during the year		
Basic		
Weighted average shares	73 722 565	73 660 433
Effect of dilutive stock options and shares	151 786	18 201
Diluted		
Adjusted weighted average shares and assumed conversions	73 874 351	73 678 634

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 2017	1 Jan–31 Dec 2016
Wages and salaries	655.4	622.4
Pension costs - defined contribution plans	74.6	70.5
Pension costs - defined benefit plans ¹⁾	-0.2	-1.2
Other pay-related statutory social costs	119.4	112.9
Share-based payments		
Stock option related costs	0.0	0.0
Share Plan costs	4.4	3.3
Other personnel costs	19.5	19.2
	873.1	827.1

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 21.9 million (EUR 10.6 million in 2016).

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 2017

Total Management remuneration, EUR	2017	2016
Compensation to the Board of Directors	518 000	448 900
Salaries	3 389 836	3 278 598
Benefits	125 679	120 230 ³⁾
Severance payments	477 137	0
Bonus	Not decided	599 916 ⁴⁾
Share-based payment costs	1 501 214	1 432 798
Statutory pension costs	465 686	659 277
Additional pension costs	870 456	974 229
Total	7 348 008	7 513 948

Board of Directors

According to the decision by the AGM executives are compensated in cash and shares. Chairman EUR 91 000/year, Deputy Chairman EUR 55 000/year, member EUR 36 000/year, Committee Chairman EUR 55 000/year and EUR 800 for each board meeting.

Total compensation to the Board of Directors	518 000	448 900
Chairman of the Board	113 400	96 600
Deputy Chairman	75 000	66 900
Members	329 600	285 400

President and CEO

Salary	EUR 600 000	(2016: EUR 600 000)
Benefits	EUR 3 235	(2016: EUR 3 146)
Bonus	Not decided yet	(2016: EUR 179 053)
Bonus principles	Maximum 100% of base salary based on Group's external revenue, profit and achievement of strategic goals when achievements exceed the targets.	
Long-Term Incentive Programme 2012–2014	A total of 12 742 shares were released from lock-up in February 2017 according to the terms of the programme.	
Share-based reward plan	A total of 4 256 shares were delivered to the President and CEO in January 2017. In addition a cash portion was paid, corresponding to a value of 4 944 shares.	The total value of paid gross reward was EUR 240 474
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 504 012 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 337 740 ²⁾
Performance Share Plan 2017–2019	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 2020.	The current value of these allocations amounts to EUR 410 484 ²⁾
Restricted Share Plan 2017–2019	Entitled to a total of 5 000 gross shares if the criteria set for the plan is met. The plan will run until spring 2020.	The current value of these allocations amounts to EUR 129 900 ¹⁾
Share-based payment costs	EUR 399 081	(2016: EUR 350 661)
Retirement age	63	
Statutory pension costs	EUR 139 370	(2016: EUR 156 686)
Additional pension costs	EUR 138 223	(2016: EUR 127 054)
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 2 789 836	(2016: EUR 2 678 598)
Benefits	EUR 122 444	(2016: EUR 117 084) ³⁾
Special payments	EUR 477 137 (Severance pay)	(2016: EUR 0)
Total bonuses	Not decided yet	(2016: EUR 420 914) ⁴⁾
Bonus principles	Maximum 75% of base salary based on individual goals when achievements exceed the targets.	
Long Term Incentive programme 2012–2014	A total of 20 776 shares were released from lock-up in February 2017 according to the terms of the programme.	
Share-based reward plan	A total of 8 731 shares were delivered to the current Leadership Team members in January 2017. In addition a cash portion was paid, corresponding to a value of 10 269 shares.	The total value of paid gross reward was EUR 496 632
Performance Share Plan 2015–2017	Current Leadership Team members are entitled to a total of 80 100 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 1 009 284 ²⁾
Restricted Share Plan 2015–2017	Current Leadership Team members are entitled to a total of 12 500 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 324 750 ¹⁾
Performance Share Plan 2016–2018	Current Leadership Team members are entitled to a total of 90 000 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 759 915 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 259 800 ¹⁾
Performance Share Plan 2017–2019	Current Leadership Team members are entitled to a total of 96 000 gross shares if the maximum levels of the performance metrics are met. The plan will run until spring 2020.	The current value of these allocations amounts to EUR 985 162 ²⁾
Restricted Share Plan 2017–2019	Current Leadership Team members are entitled to a total of 11 000 gross shares if the criteria set for the plan is met. The plan will run until spring 2020.	The current value of these allocations amounts to EUR 285 780 ¹⁾
Share-based payment costs	EUR 1 102 133	(2016: EUR 1 082 137)
Retirement age	According to national standards	
Statutory pension costs	EUR 326 315	(2016: EUR 502 590)
Additional pension costs	EUR 732 233	(2016: EUR 847 175)
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 2016 nor on 31 December 2017.

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 2017, EUR 25.98

²⁾ The fair market value for Performance Share Plan is calculated using the latest performance estimates and value of Tieto share on 31 December 2017, EUR 25.98

³⁾ Benefit costs for 2016 corrected

⁴⁾ 2016 bonus payments updated with the actual amounts paid

10. STOCK OPTIONS AND SHARE INCENTIVES

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.

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 were 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.

In February 2017 the final restriction period of this plan ended and a total of 37 089 shares were released from lock-up.

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 was run until the end of 2016. The rewards to be paid correspond to the value of 62 500 Tieto shares in the maximum.

In January 2017 a total of 25 555 shares were delivered to the Plan participants. In addition, a cash payment was made, corresponding a value of 29 145 shares, to cover taxes and tax related costs.

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.

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 is 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 2017 the plan includes 111 participants and the rewards to be paid in spring 2018 represents a value of 337 594 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 2017 the plan includes 48 participants and the rewards to be paid in spring 2018 represents a value of 40 886 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.

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 2017 the plan includes 117 participants and the rewards to be paid in spring 2019 represents a value of 364 100 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 2017 the plan includes 67 participants and the rewards to be paid in spring 2019 represents a value of 33 700 Tieto shares in the maximum (gross, including share and cash portions).

Share-based programmes 2017–2019

On 1 February 2017 the Board of Directors decided to establish new share-based incentive plans for key employees of Tieto and its subsidiaries, a Performance Share Plan 2017–2019 and a Restricted Share Plan 2017–2019. 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 2020. 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.

Performance Share Plan 2017–2019

The potential reward from the Performance Share Plan 2017–2019 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 2017–2019. The rewards to be paid on the basis of the Performance Share Plan 2017–2019 correspond to the value of an approximate maximum of 430 000 Tieto shares, including the proportion to be paid in cash.

On 31 December 2017 the plan includes 171 participants and the rewards to be paid in spring 2020 represents a value of 413 800 Tieto shares in the maximum (gross, including share and cash portions).

Restricted Share Plan 2017–2019

The reward from the Restricted Share Plan 2017–2019 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 2017–2019. The rewards to be paid on the basis of the Restricted Share Plan 2017–2019 correspond to the value of an approximate maximum of 50 000 Tieto shares, including the proportion to be paid in cash.

On 31 December 2017 the plan includes 70 participants and the rewards to be paid in spring 2020 represents a value of 42 800 Tieto shares in the maximum (gross, including share and cash portions).

Assumptions made in determining the fair value of the Share-based incentive plans

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 2017, 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 28.87
- Expected dividends: EUR 4.18
- Share price at year end: EUR 25.98

Share-based Incentives effect on the result and financial position

EUR million	2017
Expenses for the financial year, share-based payments, equity settled	1.9
Expenses for the financial year, share-based, cash settled	2.5
Total expenses for the financial year, share-based payments	4.4
Liabilities arising from share-based payments 31 December 2017	5.0

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 1 000 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 7 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 had the option to transfer their defined benefit pensions to the defined contribution plan and some actives decided to make that change. Due to this, a settlement gain of EUR 2,4 million was recognized in 2017 personnel costs and the net defined benefit liability decreased by the corresponding amount.

In Sweden the plan covers approximately 130 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 2017, a settlement loss of EUR 0.9 million was recognized in personnel costs and the net defined benefit liability increased by the corresponding amount.

In Sweden, one pension plan treated as a defined benefit plan was closed in 2017 and a new contribution plan was established. Due to this, pension costs and net defined benefit liability decreased EUR 0.3 million.

EUR million	31 Dec 2017	31 Dec 2016
Pension benefit plans		
Present value of funded pension obligations	88.6	93.7
Fair value of plan assets	-84.1	-87.3
Total provisions for pension obligations	4.5	6.4

Pension benefit plans amounts recognized in profit and loss

EUR million	31 Dec 2017	31 Dec 2016
Service cost		
Current service cost	1.2	1.9
Settlements	-2.1	-3.1
Net interest	0.0	0.1
Expense recognized in profit or loss	-0.9	-1.1
Amounts in other comprehensive income		
Remeasurement		
Gains (-)/losses (+) from change in demographic assumptions	0.0	0.0
Gains (-)/losses (+) from change in financial assumptions	7.6	13.6
Gains (-)/losses (+) from experience adjustments	0.2	-6.0
Gains (-)/losses (+) on plan assets	-4.7	-4.9
Amounts in total comprehensive income	3.1	2.7

Amounts recognized in the balance sheet

EUR million	31 Dec 2017	31 Dec 2016
Present value of pension obligations		
At 1 Jan	93.7	96.6
Current service cost	1.2	1.9
Interest expense	2.0	2.6
Benefits paid	-2.6	-1.7
Curtailement and settlement	-12.3	-11.7
Actuarial gains/losses	7.8	7.6
Exchange rate difference	-1.2	-1.6
At 31 Dec	88.6	93.7
Fair value of plan assets		
At 1 Jan	87.3	86.5
Interest income	1.9	2.5
Contribution	4.3	5.3
Benefits paid	-2.6	-1.8
Curtailement and settlement	-10.2	-8.5
Actuarial gains/losses	4.7	4.9
Exchange rate difference	-1.3	-1.6
At 31 Dec	84.1	87.3

The defined benefit obligation and plan assets are composed by country as follows

EUR million	31 Dec 2017		31 Dec 2016	
	Pension obligations	Plan assets	Pension obligations	Plan assets
Finland	50.5	38.7	56.5	43.0
Sweden	38.1	45.4	37.2	44.3
Total	88.6	84.1	93.7	87.3

Asset allocation

	31 Dec 2017		31 Dec 2016	
	EUR million	%	EUR million	%
Plan assets are comprised as follows in Sweden				
Equity instruments	16.9	37.2	16.8	37.9
Debt instruments	18.6	40.9	18.3	41.3
Property	5.1	11.3	4.7	10.6
Other	4.8	10.6	4.5	10.2
Total	45.4	100.0	44.3	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 2017	31 Dec 2016
Finland		
Discount rate	1.4	1.7
Future salary increases	3.4	3.3
Future pension increases	2.0	1.9
Inflation rate	1.7	1.6
Sweden		
Discount rate	2.4	2.8
Future salary increases	3.3	3.0
Future pension increases	1.8	1.7
Inflation rate	1.8	1.7

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%	-7.4%	7.7%
Future pension increase	0.5%	7.1%	-6.9%
Life expectancy	+1 year	5.0%	
Impact on defined benefit obligation in Sweden			
Discount rate	0.5%	-11.5%	12.6%
Future salary increase	0.5%	3.8%	-3.8%
Future pension increase	0.5%	12.6%	-11.3%
Life expectancy	+1 year	5.0%	

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 2017
Maturity under 1 year	2.6
Maturity 1–5 years	10.2
Maturity 5–10 years	15.8
Maturity 10–30 years	63.1
Maturity over 30 years	16.1
	107.8

Expected contributions in 2018

Expected contributions to post-employment benefit plans for the year ending 31 December 2018 are EUR 3.9 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 3 011 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 2017	1 Jan–31 Dec 2016
Current taxes	22.4	23.6
Change of deferred taxes	6.5	6.9
Taxes for prior years	-0.9	-0.9
Total taxes in income statement	28.0	29.6
Income tax reconciliation		
Profit before taxes	135.8	136.8
Tax calculated at the domestic corporation tax rate of 20%	27.2	27.4
Effect of different tax rates in foreign subsidiaries	1.5	2.1
Taxes for prior years	-0.9	-0.9
Income not subject to tax due to tax exemption	-0.9	-1.1
Expenses not deductible for tax purposes	1.7	1.8
Realisability of deferred tax assets	-0.4	-2.4
Deferred tax resulting from change in tax rate	0.4	-
Tax on foreign dividend distribution	1.0	3.9
Share of joint ventures' results reported net of tax	-0.6	-0.6
Other items	-1.0	-0.6
Income taxes in the consolidated income statement	28.0	29.6
Effective tax rate, %	20.6	21.6

The tax charge/credit relating to components of other comprehensive income

	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Deferred tax		
Employee benefits (IAS 19)	0.6	0.6

In December 2015, Tieto received a tax reassessment decision regarding transfer pricing audit for tax years 2009–2013 in Finland. In October 2017, Tieto received a Board of adjustment decision, which reversed the initial EUR 6.0 million tax reassessment. The decision is in line with Tieto's view and therefore does not have any significant impact on the financial statements. A tax refund of EUR 4.8 million was received in October 2017. Further refund is expected to be received in year 2018.

13. DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities

EUR million	31 Dec 2017	31 Dec 2016
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	24.2	24.4
Deferred tax asset to be recovered within 12 months	1.5	5.5
Total	25.7	29.9
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	36.5	34.1
Deferred tax liability to be recovered within 12 months	1.8	0.8
Total	38.3	34.9
Net deferred tax liability	-12.6	-5.0

The movement in deferred income tax assets and liabilities on gross basis during the year

	1 Jan 2017	Charged to income statement	Charged to other comprehensive income	Acquisitions and disposals	Other changes	31 Dec 2017
Deferred tax asset						
Restructuring costs	1.2	-	-	-	-0.2	1.0
Other provisions	2.4	-0.5	-	-	-	1.9
Employee benefits	3.5	-0.7	0.2	-	-	3.0
Depreciation difference	10.5	-0.7	-	-	-0.2	9.6
Other temporary difference	4.0	-0.8	-	-	-0.2	3.0
Fair value adjustments	-	0.1	-	-	-	0.1
Tax losses carried forward	8.3	-1.0	-	0.3	-0.5	7.1
Total	29.9	-3.6	0.2	0.3	-1.1	25.7
Deferred tax liability						
Depreciation difference	0.1	-	-	-	-	0.1
Intangible assets	26.3	-0.9	-	1.8	-0.7	26.5
Employee benefits	1.7	0.3	-0.4	-	-0.1	1.5
Finance lease	0.4	-0.3	-	-	-	0.1
Untaxed reserves	4.1	2.9	-	-	-0.1	6.9
Other temporary difference	2.3	0.9	-	-	-	3.2
Total	34.9	2.9	-0.4	1.8	-0.9	38.3
Net deferred tax liability	-5.0	-6.5	0.6	-1.5	-0.2	-12.6

	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 asset	2.9	-6.9	0.6	-2.2	0.6	-5.0

At 31 December 2017 the Group had deferred tax assets on recognized tax losses carried forward totalling EUR 7.1 million (EUR 8.3 million in 2016) of which EUR 3.2 million had no expiry date, EUR 0.2 million will expire during the years 2018–2022 and the remainder thereafter.

At 31 December 2017 the Group had deferred tax assets on operational tax losses carried forward totalling EUR 2.3 million (EUR 3.1 million in 2016) which were not recognized due to uncertainty of utilization.

Assets

14. INTANGIBLE ASSETS

EUR million	31 Dec 2017	31 Dec 2016
Goodwill		
At 1 Jan, net of accumulated impairment	409.7	384.9
Acquisitions of subsidiaries	40.6	26.3
Impairment	-	-
Other decreases	-	-
Exchange difference	-9.0	-1.5
At 31 Dec, net of accumulated impairment	441.3	409.7
Software		
At 1 Jan, net of accumulated amortization	5.9	8.0
Acquisitions of subsidiaries	-	-
Additions	6.0	2.7
Decreases	-	-
Transfers	1.1	1.1
Exchange difference	-0.0	-0.0
Amortization in the period	-5.8	-5.9
At 31 Dec, net of accumulated amortization	7.2	5.9
At 1 Jan		
Cost	126.7	123.5
Accumulated amortization and impairment	-120.8	-115.5
Net carrying amount	5.9	8.0
At 31 Dec		
Cost	37.9	126.7
Accumulated amortization and impairment	-30.7	-120.8
Net carrying amount	7.2	5.9
Allocated intangible assets		
At 1 Jan, net of accumulated amortization	26.7	14.9
Acquisitions of subsidiaries	8.1	14.5
Additions	-	-
Decreases	-	-
Transfers	-	-
Exchange difference	-1.2	0.6
Amortization in the period	-4.3	-3.3
At 31 Dec, net of accumulated amortization	29.3	26.7
At 1 Jan		
Cost	38.1	23.7
Accumulated amortization and impairment	-11.4	-8.8
Net carrying amount	26.7	14.9
At 31 Dec		
Cost	43.7	38.1
Accumulated amortization and impairment	-14.4	-11.4
Net carrying amount	29.3	26.7

Other intangible assets		
At 1 Jan, net of accumulated amortization	13.2	16.6
Acquisitions of subsidiaries	-	0.0
Additions	4.8	0.9
Decreases	-	-
Transfers	-1.9	0.8
Exchange difference	-0.1	-0.2
Amortization in the period	-5.1	-4.9
At 31 Dec, net of accumulated amortization	10.9	13.2
At 1 Jan		
Cost	56.0	54.7
Accumulated amortization and impairment	-42.8	-38.0
Net carrying amount	13.2	16.7
At 31 Dec		
Cost	45.4	56.0
Accumulated amortization and impairment	-34.5	-42.8
Net carrying amount	10.9	13.2
Advance payments, intangibles		
At 1 Jan, net of accumulated amortization	6.5	1.5
Additions	2.0	7.0
Transfers	-4.8	-2.0
Exchange difference	0.0	0.0
At 31 Dec	3.7	6.5
Net carrying amount of intangible assets, total 31 Dec	492.4	462.0

15. PROPERTY, PLANT AND EQUIPMENT

EUR million	31 Dec 2017	31 Dec 2016
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	2.3	2.4
Depreciation in the period	-0.1	-0.1
At 31 Dec, net of accumulated depreciation	2.2	2.3
At 1 Jan		
Cost	3.8	3.8
Accumulated depreciation and impairment	-1.5	-1.4
Net carrying amount	2.3	2.4
At 31 Dec		
Cost	3.8	3.8
Accumulated depreciation and impairment	-1.6	-1.5
Net carrying amount	2.2	2.3
Machinery and equipment		
At 1 Jan, net of accumulated depreciation	56.8	57.8
Acquisitions of subsidiaries	0.0	0.4
Additions	25.8	30.0
Decreases	-0.3	-0.8
Transfers	4.2	6.7
Exchange difference	-0.3	-0.4
Depreciation in the period	-35.1	-36.9
At 31 Dec, net of accumulated depreciation	51.1	56.8
At 1 Jan		
Cost	413.2	409.8
Accumulated depreciation and impairment	-356.4	-352.0
Net carrying amount	56.8	57.8
At 31 Dec		
Cost	303.4	413.2
Accumulated depreciation and impairment	-252.3	-356.4
Net carrying amount	51.1	56.8

Capitalized finance lease		
At 1 Jan, net of accumulated depreciation	5.4	6.7
Additions	-	-
Decreases	-1.9	-
Transfers	-	-
Exchange difference	-	-
Depreciation in the period	-1.1	-1.3
At 31 Dec, net of accumulated depreciation	2.4	5.4
At 1 Jan		
Cost	55.7	55.9
Accumulated depreciation and impairment	-50.3	-49.2
Net carrying amount	5.4	6.7
At 31 Dec		
Cost	3.9	55.7
Accumulated depreciation and impairment	-1.5	-50.3
Net carrying amount	2.4	5.4
Other tangible assets		
At 1 Jan, net of accumulated depreciation	16.1	11.2
Additions	10.8	6.5
Decreases	-	0.0
Transfers	12.3	0.0
Exchange difference	-0.1	-0.1
Depreciation in the period	-3.2	-1.5
At 31 Dec, net of accumulated depreciation	35.9	16.1
At 1 Jan		
Cost	23.2	16.9
Accumulated depreciation and impairment	-7.1	-5.8
Net carrying amount	16.1	11.1
At 31 Dec		
Cost	53.9	23.2
Accumulated depreciation and impairment	-18.0	-7.1
Net carrying amount	35.9	16.1
Advance payments and work in progress		
At 1 Jan	12.2	3.7
Additions	1.5	15.2
Decreases	-	-
Transfers	-11.5	-6.7
Exchange difference	-0.1	-0.0
At 31 Dec	2.1	12.2
Net carrying amount of tangible assets, total 31 Dec	94.9	94.0

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Other shares and securities owned by the Parent company

EUR million	31 Dec 2017 Book value	31 Dec 2016 Book value
Lifeit Oy	-	0.1
Tapiolan Monitoimiareena Oy	0.1	0.1
Other shares and securities	0.0	0.1
	0.1	0.3

Other shares and securities owned by subsidiaries

EUR million	31 Dec 2017 Book value	31 Dec 2016 Book value
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 2017	31 Dec 2016
Trade receivables		309.3	282.4
Prepaid expenses and accrued income			
Unbilled earned net sales		53.6	53.9
Licence fees		24.1	21.1
Rents		3.2	2.8
Social costs		1.4	3.1
Accrued interest income		0.0	0.0
Other prepaid expenses		18.2	19.2
Derivate receivables	27	1.8	2.4
Other		9.1	5.4
		420.7	390.3

Aging and provision for doubtful trade receivables

EUR million	31 Dec 2017	31 Dec 2016
Not past due	254.1	236.0
Past due 1–30 days	50.8	41.6
Past due 31–60 days	2.5	3.3
Past due 61–90 days	0.4	0.9
Past due 91–180 days	1.4	0.6
Past due 180+ days	2.0	1.5
Provision for doubtful receivables	-1.9	-1.5
	309.3	282.4
Provision for doubtful receivables, of which		
Past due less 91 days	-	-
Past due 91–180 days	-1.0	-0.6
Past due 181+ days	-0.9	-0.9
	-1.9	-1.5

18. CASH AND CASH EQUIVALENTS

EUR million	31 Dec 2017	31 Dec 2016
Cash in hand and at bank	64.0	50.0
Short-term deposits	14.2	6.7
Cash and cash equivalents	78.2	56.7

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 2016	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
Transfer from/to retained earnings					-
31 Dec 2016	74 109 252	76.6	43.4	0.0	120.0
Translation difference			-0.8		-0.8
Share subscriptions based on stock options					0.0
Transfer from/to retained earnings					-
31 Dec 2017	74 109 252	76.6	42.6	0.0	119.2

At the end of 2017, Tieto Corporation's total authorised number of shares was 74 109 252 (2016: 74 109 252 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 2017, the number of shares in the company's or its subsidiaries' possession totalled 386 127 representing 0.5% of the total number of shares and voting rights. Related to the company's share-based reward plan, a total of 25 555 shares held by Tieto were transferred to the participants of the plan. The number of outstanding shares, excluding the treasury shares, was 73 723 125 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 2017 dividends were paid EUR 1.37 per share, totalling EUR 101.0 million (2016 1.35 per share, totalling EUR 99.3 million). After the reporting period, the Board of Directors has proposed to distribute dividend EUR 1.40 per share, totalling EUR 103.2 million.

20. INTEREST-BEARING LOANS AND BORROWINGS

EUR million	31 Dec 2017	31 Dec 2016
Long-term		
Bonds	99.8	99.6
Other loans	1.0	-
Finance lease liabilities	1.7	4.2
	102.5	103.8
Short-term		
Other loans	117.4	51.3
Cash Pool liabilities towards Joint Ventures	16.4	16.0
Finance lease liabilities	0.8	1.3
	134.6	68.6

21. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

EUR million	31 Dec 2016	Cash flows	Non-cash changes					31 Dec 2017
			Foreign exchange differences	Acquisitions and disposals	New leases	Derecognition of leases	Other	
Long-term interest bearing loans	99.6	0.2	0.0	0.8	-	-	0.2	100.8
Short-term interest bearing loans	67.3	61.6	0.0	0.4	4.7	-	-0.2	133.8
Finance lease liabilities	5.5	-1.0	0.0	-	-	-2.0	0.0	2.5
	172.4	60.8	0.0	1.2	4.7	-2.0	0.0	237.1

22. PROVISIONS

EUR million	31 Dec 2017	31 Dec 2016
Provisions for restructuring		
At 1 Jan	9.9	20.6
Exchange difference	-0.2	-0.4
New provision	20.2	11.5
Use of provision	-21.3	-21.1
Reversal of provision	-1.1	-0.7
At 31 Dec	7.5	9.9
of which		
long-term	0.4	0.6
short-term	7.1	9.3
Total	7.5	9.9
Provisions for loss-making contracts		
At 1 Jan	2.1	2.6
Exchange difference	-0.0	-0.0
New provision	1.5	3.2
Use of provision	-1.5	-2.6
Reversal of provision	-0.2	-1.1
At 31 Dec	1.9	2.1
of which		
long-term	0.0	0.0
short-term	1.9	2.1
Total	1.9	2.1
Other provisions		
At 1 Jan	4.9	5.8
Exchange difference	-0.0	-0.0
New provision	1.6	2.2
Use of provision	-1.8	-0.4
Reversal of provision	-1.2	-2.7
At 31 Dec	3.5	4.9
of which		
long-term	2.2	4.8
short-term	1.3	0.1
Total	3.5	4.9

Major part of the new restructuring costs 2017 are related to efficiency programs in Finland and Sweden.

23. FINANCE LEASES

Finance lease receivables

EUR million	31 Dec 2017	31 Dec 2016
Amortization periods of finance lease gross receivables		
Within one year	2.1	3.6
Between one and five years	0.8	2.3
Gross investment	2.9	5.9
Unearned future finance income	0.1	0.2
Net investment	2.8	5.7
Present value of minimum lease payment receivables		
Within one year	2.0	3.5
Between one and five years	0.8	2.2
Net investment	2.8	5.7

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:

EUR million	31 Dec 2017	31 Dec 2016
Finance lease future payments		
Within one year	0.9	1.5
Between one and five years	1.7	4.4
	2.6	5.9
Present value of future minimum lease payments		
Within one year	0.8	1.3
Between one and five years	1.7	4.2
	2.5	5.5
Future interest charge	0.1	0.4

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 2017 was 3.7% (3.7%).

24. TRADE AND OTHER PAYABLES

EUR million	Note	31 Dec 2017	31 Dec 2016
Trade payables		104.2	96.3
Advances received and deferred income		30.8	42.2
Accrued liabilities			
Vacation pay and related social costs		73.1	73.7
Other accrued payroll and related social costs		62.8	46.5
Interest		1.8	1.7
Rent		3.8	4.6
Derivative liabilities	27	0.9	1.1
Other accrued expenses		39.2	36.1
Value added tax debt		30.8	27.8
Payroll tax debt		15.1	14.6
		362.5	344.6

Financial instruments - Fair values and risk management

25. 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 2017 Tieto used currency forward contracts and swaps to mitigate the risks. Gains and losses from foreign exchange contracts are accounted in Group income statement.

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 2017 was 94% (2016: 98%).

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							
31.12.2017	-80.0	18.3	-61.7	56.0	8.0	-5.6	2.4
31.12.2016	-53.6	14.2	-39.4	39.2	5.4	-3.9	1.4
NOK							
31.12.2017	-13.2	6.8	-6.4	5.6	1.3	-0.6	0.8
31.12.2016	-51.5	-0.1	-51.6	51.6	5.2	-5.2	-
PLN							
31.12.2017	0.1	-9.5	-9.4	9.2	-0.0	-0.9	-0.9
31.12.2016	0.6	-3.9	-3.3	3.2	-0.1	-0.3	-0.4
CZK							
31.12.2017	-5.0	-34.4	-39.4	40.1	0.5	-4.0	-3.5
31.12.2016	-3.5	-27.9	-31.4	30.0	0.4	-3.0	-2.7
INR							
31.12.2017	-	-22.1	-22.1	21.9	-	-2.2	-1.9
31.12.2016	-	-18.8	-18.8	18.9	-	-1.9	-1.9

USD								
31.12.2017	0.5	-	0.5	-	-0.1	-	-0.1	-0.1
31.12.2016	-0.8	4.3	3.5	4.3	0.1	-0.4	-0.4	-0.4
Other								
31.12.2017	-1.6	-2.9	-4.5	2.9	0.2	-0.3	-0.1	-0.1
31.12.2016	-1.4	0.6	-0.8	-5.0	0.1	0.5	0.6	0.6

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 2 488 million exposure forms the majority of the translation risk. The translation position was unhedged at the end of 2017.

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 2017 most of the funding was based on fixed rate 6-year bond, issued in May 2013 and commercial papers issued. Consequently, the average time to re-pricing for the loans, at the end of the year was 9 months (18 months in 2016).

31 Dec 2017				
EUR million	Amount	Duration	Average rate, %	Rate sensitivity ²⁾
Capital markets	-99.8	1.4	2.9	0.0
Money markets	78.2	0.0	1.2	0.8
Other loans	-118.5	0.1	0.1	-1.2
Other receivables	0.5	1.1	0.4	0.0
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

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 27.

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 2021. 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. In June Group concluded with the European Investment Bank EUR 85 million financing agreement.

Debt structure

31 Dec 2017		Maturity structure							
		Amount drawn	Amount available	2018	2019	2020	2021	2022	2023–
EUR million									
Loans	Bond	100.0	-	-	100.0	-	-	-	-
	Commercial paper programme	115.0	135.0	115.0	-	-	-	-	-
	Revolving credit facility	-	150.0	-	-	-	-	-	-
	Liabilities towards Joint Ventures	16.0	-	16.0	-	-	-	-	-
	EIB	-	85.0	-	-	-	-	-	-
	Other loans	3.6	-	2.5	0.9	0.2	-	-	-
			234.6	370.0	133.5	100.9	0.2	-	-
	Interest payments	-	-	2.8	1.1	0.0	-	-	-
Derivative liabilities/ assets	Forward contracts outflow	-	-	179.6	-	-	-	-	-
	Forward contracts Inflow	-	-	-179.6	-	-	-	-	-
	Derivatives net flow	-	-	-	-	-	-	-	-
Trade payables	Outflow	-	-	104.2	-	-	-	-	-
Other liabilities	Financial lease liability	2.6	-	0.9	0.9	0.8	-	-	-
Total		237.2	370.0	241.4	102.9	1.0	-	-	-

31 Dec 2016		Maturity structure							
		Amount drawn	Amount available	2017	2018	2019	2020	2021	2022–
EUR million									
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	-	-	-	-	-
	EIB	-	-	-	-	-	-	-	-
	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	-	-

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 in terms of invoicing schedules and payment terms. 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 2017, provisions for bad debts increased by EUR 0.5 million (EUR 0.6 million release in 2016). EUR 0.1 million bad debts were written off in 2017 (EUR 1.7 million in 2016). 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 months EBITDA (excluding capital gains) of the Group.

	31 Dec 2017	31 Dec 2016
Net debt	155.7	109.7
12 month EBITDA (excluding capital gains)	193.8	194.7
Net debt/EBITDA (excluding capital gains)	0.8	0.6

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 2017 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 following table 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 2017	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	1.8	-	1.8	-0.5	-	1.3
Total	1.8	-	1.8	-0.5	-	1.3

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	-	1.3
Total	2.4	-	2.4	-1.1	-	1.3

Financial liabilities

As at 31 December 2017	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	-0.9	-	-0.9	0.5	-	-0.4
Total	-0.9	-	-0.9	0.5	-	-0.4

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	-	-

26. CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

EUR million	31 Dec 2017		31 Dec 2016	
	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	1.8	1.8	2.4	2.4
Available-for-sale investments				
Other non-current assets	0.5	0.5	0.7	0.7
Loans and receivables				
Loans				
Non-current loan receivables, interest-bearing	1.2	1.2	2.2	2.2
Current loan receivables, interest-bearing	2.0	2.0	3.8	3.8
Trade and other receivables				
Trade receivables	308.9	308.9	282.4	282.4
Unbilled earned net sales	53.6	53.6	53.9	53.9
Accrued interest income	0.0	0.0	-	-
Cash and cash equivalents	78.2	78.2	56.7	56.7
Financial assets total	446.2	446.2	402.1	402.1
Financial liabilities at fair value through profit or loss				
Current liabilities				
Trade and other payables				
Other accrued expenses				
Current derivative liabilities	0.9	0.9	1.1	1.1
Financial liabilities measured at amortized cost				
Non-current liabilities				
Finance lease liability, non-current	1.7	1.7	4.2	4.2
Loans	100.8	103.7	99.6	105.8
Other non-current liabilities	3.8	0.0	0.2	0.2
Current liabilities				
Trade and other payables				
Trade payables	104.2	104.2	96.3	96.3
Interest	1.8	1.8	1.7	1.7
Finance lease liability	0.8	0.8	1.3	1.3
Loans	133.8	133.8	67.3	67.3
Financial liabilities total	347.8	346.9	271.7	277.9

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 2017

EUR million	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	1.8	-	1.8
Available-for-sale investments	-	-	0.5	0.5
Financial liabilities at fair value through profit or loss				
Derivatives	-	0.9	-	0.9

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

There were no transfers between levels 1 and 2 during the year.

Change in Level 3 instruments for the year ended 31 December 2017 is due to sale and write off transactions, not result of revaluation.

27. 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 2017	31 Dec 2016
Foreign exchange forward contracts	179.6	198.7
Electricity price futures contracts	0.9	0.5

Fair values of derivatives

The net fair values of derivative financial instruments at the balance sheet date	31 Dec 2017	31 Dec 2016
Foreign exchange forward contracts	0.8	1.2
Electricity price futures contracts	0.1	0.1

Derivatives are used for economic purposes only.

Gross positive fair values of derivatives	31 Dec 2017	31 Dec 2016
Foreign exchange forward contracts	1.7	2.3
Electricity price futures contracts	0.1	0.1

Gross negative fair values of derivatives	31 Dec 2017	31 Dec 2016
Foreign exchange forward contracts	-0.9	-1.1
Electricity price futures contracts	0.0	-

The last forwards deals related to hedging highly probable forecast transactions denominated in foreign currency realized in April 2016. No gains and losses were recognized in the hedging reserve in equity (see Cash flow hedges below) on foreign exchange forward contracts, both as of 31 December 2017 and 31 December 2016.

The efficient portion of cash flow hedges recognized in net sales at 31 December 2016 amounted to a gain of EUR 0.2 million and a loss of EUR 0.0 million, including the interest rate difference. No transfers from equity to net sales took place during year 2017. No gains or losses recognized in other operating income or expenses due to hedge accounting inefficiency during year 2017 and comparative period.

Cash flow hedges

EUR million	Hedging reserve
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	-
Balance at 1 Jan 2017	-
Fair value gains in year	-
Fair value losses in year	-
Tax on fair value gains	-
Tax on fair value losses	-
Balance at 31 Dec 2017	-

Group structure and goodwill

28. SUBSIDIARY SHARES

Subsidiary shares owned by the Parent company

	Share %	31 Dec 2017 Book value EUR million
Tieto Austria GmbH, Austria	100.0	0.8
Tieto (Beijing) Technology Co., Ltd., China	100.0	0.4
Tieto Canada Inc., Canada	100.0	1.0
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	137.2
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 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 AB, Sweden	100.0	549.3
TietoEnator Inc., USA	100.0	8.0
Dormant subsidiaries (5 in total)		0.0
		937.0

Shares in Group companies owned by subsidiaries

	Share %	31 Dec 2017 Book value EUR million
Avega Affero AB, Sweden	100.0	0.2
Avega Amplio AB, Sweden	80.0	0.0
Avega Aqilo AB, Sweden	100.0	0.1
Avega Catalyst AB, Sweden	90.1	0.0
Avega Complius AB, Sweden	90.2	0.0
Avega Dinamiko AB, Sweden	90.1	0.0
Avega Effectus AB, Sweden	76.0	0.0
Avega Group AB, Sweden	96.7	47.8
Avega Kipeo AB, Sweden	99.6	1.7
Avega Kite AB, Sweden	100.0	0.0
Avega Miundo AB, Sweden	100.0	0.0
Avega Mtoni AB, Sweden	90.2	0.0
Avega Nuvem AB, Sweden	90.2	0.0
Avega Primero AB, Sweden	100.0	0.1
Avega Proferio AB, Sweden	80.5	0.7
Avega Qurio AB, Sweden	88.5	2.1
Avega Scire AB, Sweden	80.0	0.1
Avega Senso AB, Sweden	100.0	0.0
Emric AB, Sweden	100.0	36.4
Emric d.o.o. Beograd, Serbia	100.0	0.0
Emric Operations AB, Sweden	100.0	0.4
PT Emric Asia, Indonesia	100.0	0.0
Softinn Software Services Pvt. Ltd., India	100.0	80.7
Tieto India Pvt. Ltd., India	100.0	71.9
Tieto Netherlands B.V., Netherlands	100.0	2.9
Tieto Rus OOO, Russia	100.0	2.3
Tieto Sweden Healthcare & Welfare AB, Sweden	100.0	4.3
Tieto Sweden Support Services AB, Sweden	100.0	0.0
Tieto U.S. Inc., USA	100.0	1.0
VisueCare AB, Sweden	100.0	1.5
Dormant subsidiaries (4 in total)		0.0
		254.2

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 2017.

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.

29. 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 2017	31 Dec 2016
At 1 Jan	3.7	3.7
Equity refund	-	-
Disposals	-	-
Historical costs at 31 Dec	3.7	3.7
Equity adjustments		
At 1 Jan	12.8	13.5
Share of results	3.2	3.2
Dividends received	-3.5	-3.8
Other comprehensive income	0.0	-0.1
Equity adjustments at 31 Dec	12.6	12.8
Carrying value at 31 Dec	16.3	16.5

Equity adjustments includes Group level goodwill EUR 10.3 million.

Joint ventures

31 Dec 2017	Number of shares	Share %	Voting right %	Carrying value EUR million
Tieto Esy Oy	7 300	80.0	34.0	4.9
Tietollmarinen Oy	3 570	70.0	30.0	2.5
Tietokarhu Oy	8 000	80.0	20.0	8.9
				16.3

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.

Financial and personnel information of Joint ventures

31 Dec 2017

EUR million	Tieto Esy Oy	Tietollmarinen Oy	Tietokarhu Oy
Non-current assets	0.1	0.2	0.1
Interest-bearing non-current assets	3.7	1.0	11.7
Other current assets	0.6	0.4	4.5
	4.4	1.6	16.3
Other non-current liabilities	0.1	0.1	0.3
Other current liabilities	1.3	0.8	12.0
	1.4	0.9	12.3
Net sales	6.5	4.2	29.1
Expenses	-6.1	-4.2	-24.5
Depreciation and amortization	-	-	-0.0
Interest income	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	0.4	0.0	4.6
Income tax expense	-0.1	-0.0	-0.9
Net profit	0.3	0.0	3.7
Dividends paid to Tieto	1.0	-	2.5
Average full-time personnel during the financial year	50	27	172

31 Dec 2016

EUR million	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

There are no commitments and contingencies related to joint ventures.

30. ACQUISITIONS

Tieto completed the following acquisition during 2017:

*Avega Group AB, acquisition date 1 December 2017

On 23 October, 2017, Tieto offered to acquire all of Avega Group AB's shares and subscription rights in a voluntary public offer. The initial offer period ended 28 November 2017 and on 1 December 2017 (being the acquisition date) Tieto announced that it will consummate the exchange offer. During the offer period and until 31 December 2017 Tieto had acquired in total 96,7 % of Avega Group AB shares. Tieto has submitted a compulsory redemption proceeding for the remaining part of the shares and subscription rights. Therefore Avega Group AB has been consolidated in full as of the acquisition date.

Avega is a Swedish consultancy company specialized in digital transformation. The acquisition supports Tieto's ambition to accelerate growth and become the preferred business renewal partner in Sweden, where the market is very consulting-led.

The following table summarizes the consideration paid, the fair value of assets acquired and liabilities assumed at the acquisition date.

The purchase price allocation is provisional due to ongoing identification and valuation of the underlying assets and liabilities.

Consideration

EUR million

Paid in cash	45.0
Unpaid consideration	2.4
Total consideration	47.4

Recognized amounts of identifiable assets acquired and liabilities assumed

EUR million

	Recognized on acquisition
Property, plant and equipment	0.0
Intangible assets	6.2
Deferred tax assets	0.3
Trade and other receivables	10.5
Cash and cash equivalents	3.0
Loans	-1.3
Deferred tax liabilities	-1.4
Trade and other payables	-10.2
Non-controlling interests in subsidiaries	-0.3
Goodwill	40.6
Total	47.4

The identified intangible assets relate to customer relationships.

The goodwill is attributable to market share and new competencies. It will not be deductible for tax purposes.

The non-controlling interests in the subsidiaries of Avega Group has been recognized at its proportionate share of the acquired net identifiable assets.

Acquisition-related costs of EUR 1.0 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 4 million to the revenue and EUR 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 47 million and profit about EUR 3 million.

Change in contingent consideration from acquisitions completed in 2015 and 2016

Contingent consideration related to 2015 and 2016 acquisitions and respective contingent liability decreased with EUR 4.5 million.

EUR million

Contingent consideration on 1 Jan 2017	8.3
Change recognized in 2017	-4.5
Remaining contingent consideration	3.8

31. 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.

The recoverable amounts of all CGUs are determined based on value-in-use calculations. The cash flow projections covering the initial three-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 two-year period vary between 1% and 7%, 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 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 6% and 12% (between 7% and 12%).

Carrying amount of goodwill allocated to CGUs and segments

The total goodwill at 31 December 2017 was EUR 441.3 million. The increase compared to 31 December 2016 is EUR 31.6 million. Goodwill increased EUR 40.6 million due to the acquisition and decreased EUR 9.0 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 2017 was EUR 167.4 million (EUR 168.9 million in 2016). The recoverable amount of the CGU has been calculated in accordance with the general principles described above. The growth rate for the initial three-year period is 1% and EBITDA margin 16%. The growth rate used to extrapolate the cash flows for the subsequent two-year period is 1%. The discount rate applied to the cash flow projections is 6.2%.

In CGU Business Consulting and Implementation the carrying amount of goodwill allocated to the CGU at 31 December 2017 was EUR 25.1 million (EUR 25.4 million in 2016). The recoverable amount of the CGU has been calculated in accordance with the general principles described above. The growth rate for the initial three-year period varies between 8% and 10% and EBITDA margin between 10% and 13%. The growth rate used to extrapolate the cash flows for the subsequent two-year period is 6%. The discount rate applied to the cash flow projections is 6.3%.

Unallocated goodwill relating to CGU Business Consulting and Implementation: Shortly before the end of the reporting period, Tieto acquired Avega Group AB in Sweden. There was EUR 40.6 million of goodwill recognised on acquisition, which is yet to be allocated to the related CGU Business Consulting and Implementation. The purchase price allocation is preliminary and the allocation of the goodwill has not yet been finalised. No impairment indicators have been noted regarding the acquisition related goodwill.

In CGU Industry Solutions the carrying amount of goodwill allocated to the CGU at 31 December 2017 was EUR 150.1 million (EUR 155.6 million in 2016). The recoverable amount of the CGU has been calculated in accordance with the general principles described above. The growth rate for the initial three-year period varies between 6% and 8% and EBITDA margin between 15% and 19%. The growth rate used to extrapolate the cash flows for the subsequent two-year period varies between 6% and 7%. The discount rate applied to the cash flow projections is 6.5%.

In CGU Product Development Services the carrying amount of goodwill allocated to the CGU at 31 December 2017 was EUR 57.9 million (EUR 59.8 million in 2016). The recoverable amount of the CGU has been calculated in accordance with the general principles described above. The growth rate for the initial three-year period varies between 5% and 7% and EBITDA margin is 10%. The growth rate used to extrapolate the cash flows for the subsequent two-year period is 3%. The discount rate applied to the cash flow projections is 12.0%.

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 126 million, is EUR 46 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)		+5

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.

Carrying amount of goodwill by CGU

EUR million	31 Dec 2017	31 Dec 2016
Technology Services and Modernization	167.4	168.9
Business Consulting and Implementation ¹⁾	66.0	25.4
Industry Solutions	150.1	155.6
Product Development Services	57.9	59.8
Total	441.3	409.7

¹⁾ Includes Avega Group AB acquisition related goodwill from the preliminary purchase price allocation. The goodwill allocation is not finalised yet.

Other information

32. COMMITMENTS AND CONTINGENCIES

Eur million	31 Dec 2017	31 Dec 2016
For Tieto obligations		
Pledges ¹⁾	1.6	-
Mortgages ¹⁾	3.4	-
Guarantees ²⁾		
Performance guarantees	0.9	4.0
Lease guarantees	8.6	8.9
Other	0.5	1.5
Other Tieto obligations		
Rent commitments due in one year	41.6	39.7
Rent commitments due in 1–5 years	98.0	95.3
Rent commitments due after 5 years	17.9	31.4
Operating lease commitments due in one year	10.9	8.3
Operating lease commitments due in 1–5 years	12.0	8.1
Operating lease commitments due after 5 years	0.4	0.6
Commitments to purchase assets	7.4	6.2
Other	1.6	-
On behalf of joint ventures	-	-
On behalf of Others		
Guarantees	-	0.1

¹⁾ The Group plans to cancel local credit facilities (1 MEUR) of recently acquired group company in 2018. As a collateral for the facilities, company has pledged subsidiary shares (carrying value of those shares were 1.6 MEUR) and in addition to those, a General Business mortgage of 3.4 MEUR.

²⁾ In addition to commitments of EUR 8.6 million (EUR 19.9 million in 2016) related to liabilities in the Group balance sheet.

33. 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 2017	31 Dec 2016
Premises rents	45.9	45.3
Other rental expenses of operating leases	11.9	11.5
	57.8	56.8

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 2017	31 Dec 2016
Within one year	1.2	0.5
After one year but not more than five years	0.8	0.4
After five years	0.0	0.0

34. 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 2017	31 Dec 2016
Sales	1.6	2.7
Other operating income	4.5	4.4
Purchases	3.1	2.7
Receivables	0.7	0.8
Liabilities	0.3	0.2

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 28 in the Notes to the consolidated financial statements.

35. EVENTS AFTER THE BALANCE SHEET DATE

No major events after the period.

Parent company's financial statements

INCOME STATEMENT (FAS)

EUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Net sales		-	-
Other operating income	1	228 374 858.50	206 668 921.56
Personnel expenses	2	-17 621 001.44	-16 300 460.69
Depreciation and reduction of values	7, 8	-4 711 944.36	-2 972 953.39
Other operating expenses	3	-205 636 356.40	-199 606 628.72
Operating profit / loss		405 556.30	-12 211 121.24
Financial income and expenses	5	63 086 108.02	18 976 716.52
Profit before appropriations and taxes		63 491 664.32	6 765 595.28
Appropriations			
Change in cumulative accelerated depreciation		-49 462.49	-
Group contribution		45 400 000.00	47 200 000.00
Profit before taxes		108 842 201.83	53 965 595.28
Taxes	6	-5 385 238.55	-4 558 096.64
Profit for the financial year		103 456 963.28	49 407 498.64

BALANCE SHEET (FAS)

EUR	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets	7	9 263 664.19	7 847 123.92
Tangible assets	8	5 648 961.93	6 530 772.67
Investments	9	940 868 684.69	941 309 363.64
Total non-current assets		955 781 310.81	955 687 260.23
Current assets			
Long-term receivables			
Receivables from Group companies	10	46 285 726.27	4 285 203.29
Other receivables	10	212 418.03	236 733.08
		46 498 144.30	4 521 936.37
Current receivables			
Accounts receivables		398 956.87	10 849.84
Receivables from Group companies	11, 12	67 573 692.56	79 481 609.15
Receivables from associated companies	11, 12	143 252.10	145 934.68
Other receivables		2 535 590.56	9 731 736.50
Prepaid expenses and accrued income	12	6 149 601.88	3 312 598.41
		76 801 093.97	92 682 728.58
Cash and cash equivalents		35 205 017.12	28 099 538.17
Total current assets		158 504 255.39	125 304 203.12
TOTAL ASSETS		1 114 285 566.20	1 080 991 463.35

EUR	Note	31 Dec 2017	31 Dec 2016
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	13		
Share capital		76 555 412.00	76 555 412.00
Share issue premiums		13 791 579.51	13 791 579.51
Invested unrestricted equity reserve		12 843 921.39	12 843 921.39
Retained earnings		469 181 758.56	520 106 368.68
Net profit for the current year		103 456 963.28	49 407 498.64
		675 829 634.74	672 704 780.22
Appropriations			
Cumulative accelerated depreciation		49 462.49	-
Provisions	14	609 667.48	2 194 205.70
Liabilities			
Non-current liabilities			
Bonds	15	100 000 000.00	100 000 000.00
Other non-current liabilities	15	5 834.27	5 881.98
		100 005 834.27	100 005 881.98
Current liabilities	16		
Accounts payables		8 519 021.30	10 082 659.50
Liabilities to Group companies	16, 17	183 772 402.12	217 069 985.68
Liabilities to associated companies	16, 17	16 425 726.14	16 004 302.68
Loans		114 931 506.91	51 283 429.04
Other current liabilities		1 729 704.12	1 518 526.53
Accrued liabilities and deferred income	17	12 412 606.63	10 127 692.02
		337 790 967.22	306 086 595.45
Total liabilities		437 796 801.49	406 092 477.43
TOTAL EQUITY AND LIABILITIES		1 114 285 566.20	1 080 991 463.35

STATEMENT OF CASH FLOWS (FAS)

EUR	1 Jan-31 Dec 2017	1 Jan-31 Dec 2016
Cash flow from operations		
Profit before appropriations and taxes	63 491 664.32	6 765 595.28
Adjustments		
Depreciation and reduction of values	4 711 944.36	2 972 953.39
Financial income and expenses	-63 086 108.02	-18 976 716.52
Other adjustments	-14 323 663.19	-
Other non-cash items	-101 650.30	-3 032 937.41
Cash generated from operations before net working capital	-9 307 812.83	-12 271 105.26
Change in working capital		
Change in current receivables	18 230 024.50	-2 942 934.39
Change in current non-interest-bearing liabilities	166 032 634.06	-7 864 888.57
Cash generated from operations	174 954 845.73	-23 078 928.22
Interest expenses paid and other financial expenses	-18 611 043.32	-14 277 137.62
Interest income received	10 787 730.68	11 382 172.35
Dividend received and equity refund	66 514 017.67	23 124 808.69
Income taxes paid	-229 534.38	-11 311 094.93
Net cash flow from operations	233 416 016.38	-14 160 179.73
Cash flow from investing activities		
Purchase of tangible and intangible assets	-5 586 732.99	-11 488 871.43
Proceeds from sale of tangible and intangible assets	214 520.00	-
Acquisition of Group companies and business operations	-993 772.36	-5 621 835.91
Proceeds from sale of Group companies	15 568 071.00	58 902.81
Loans granted	-106 696 981.30	-5 284 600.11
Proceeds from repayments of loans	66 662 490.53	8 463 082.59
Total net cash used in investing activities	-30 832 405.12	-13 873 322.05
Cash flow from financing activities		
Dividends paid	-101 000 681.25	-99 361 904.85
Proceeds from issuance of share capital	-	782 860.22
Conveyance of own shares	432 763.55	1 010 361.17
Proceeds from short-term borrowings	1 661 071 287.25	661 492 416.88
Repayments in short-term borrowings	-1 614 343 805.53	-647 547 178.36
Change in intercompany cash pool, net	-188 837 696.16	4 934 106.39
Group contributions received	47 200 000.00	38 150 000.00
Total net cash used in financing activities	-195 478 132.14	-40 539 338.55
Change in cash and cash equivalents	7 105 479.12	-68 572 840.33
Cash and cash equivalents at beginning of period	28 099 538.00	96 672 378.50
Cash and cash equivalents at end of period	35 205 017.12	28 099 538.17
	7 105 479.12	-68 572 840.33

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 (business identity code 0101138-5) is a Finnish public limited IT service and software company organized under the laws of Finland and domiciled in Espoo: Keilalahdentie 2-4, 02101 Espoo, Finland. The company is listed on NASDAQ Helsinki and Stockholm. The Board of Directors approved the financial statements to be published 6 February 2018. 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 Corporation 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 derecognised 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.

1. 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.

2. Loans and receivables

Loans and receivables are subsequently carried at amortized cost, using the effective interest rate method.

3. 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.

4. 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 2017	1 Jan–31 Dec 2016
Gain from sale of other fixed assets and shares	14 641 489.19	-
Merger gains	-	150 393.12
Gain on liquidation of subsidiary	-	119 153.97
Rental income	32 477 103.63	31 437 139.45
Internal service fees	176 960 216.82	157 249 749.35
Other income	4 296 048.86	17 712 485.67
	228 374 858.50	206 668 921.56

2. PERSONNEL EXPENSES

EUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Wages and salaries	14 389 229.73	13 067 290.28
Pension expenses	2 611 259.90	2 506 523.58
Other pay-related statutory social costs	620 511.81	726 646.83
	17 621 001.44	16 300 460.69

The parent company had an average of 142 employees during 2017 and 146 employees in 2016.

3. OTHER OPERATING EXPENSES

EUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Voluntary personnel expenses	840 854.51	1 790 912.57
Licenses and maintenance	11 180 475.00	10 978 477.59
ICT and data communication expenses	7 823 981.36	6 624 254.04
Administrative expenses	34 494 429.50	33 066 920.06
Rents and other premises expenses	29 001 879.88	30 652 386.26
Loss on sale of shares	317 825.62	-
Other operating expenses	121 976 910.53	116 493 678.20
	205 636 356.40	199 606 628.72

EUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Fees to auditors		
Authorized Public Accountants, PwC		
Audit fees	183 500.00	160 000.00
Tax consultation	2 000.00	156 000.00
Other services	228 000.00	157 000.00
	413 500.00	473 000.00

4. MANAGEMENT REMUNERATION

See Note 9 in Notes to the consolidated financial statements.

5. FINANCIAL INCOME AND EXPENSES

EUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Dividend income		
Dividend income from Group companies	63 035 917.67	19 301 828.69
Dividend income from associated companies	3 477 300.00	3 822 700.00
Dividend income from other companies	800.00	280.00
	66 514 017.67	23 124 808.69
Other interest and financial income		
From Group companies	1 179 841.78	1 461 256.61
From other companies	18 424 733.82	17 284 264.35
	19 604 575.60	18 745 520.96
Investment write-downs	-113 928.37	-128 265.99
Interest and other financing expenses		
To Group companies	-436 272.09	-702 252.09
To other companies	-22 482 284.79	-22 063 095.05
	-22 918 556.88	-22 765 347.14
Total financial income and expenses	63 086 108.02	18 976 716.52

6. TAXES

EUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Taxes for the financial period / appropriations	9 080 000.00	9 440 000.00
Taxes for the financial period / regular operations	-14 466 336.46	-4 881 903.36
Taxes for the previous years	1 097.91	-
	-5 385 238.55	4 558 096.64

7. INTANGIBLE ASSETS

EUR	31 Dec 2017	31 Dec 2016
Intangible rights		
Acquisition cost, 1 Jan	11 262 764.90	11 228 684.79
Additions	950 058.24	100 000.00
Decreases	-	-65 919.89
Acquisition cost, 31 Dec	12 212 823.14	11 262 764.90
Accumulated amortization, 1 Jan	11 048 149.58	10 614 085.31
Accumulated amortization for decreases	-	-60 219.26
Amortization for the period	871 625.69	494 283.53
Accumulated amortization, 31 Dec	11 919 775.27	11 048 149.58
Book value, 31 Dec	293 047.87	214 615.32
Other capitalized expenditures		
Acquisition cost, 1 Jan	15 209 107.90	10 139 309.19
Additions	3 419 748.45	6 128 611.06
Decreases	-33 650.92	-1 038 710.55
Transfers	208 841.27	-20 101.80
Acquisition cost, 31 Dec	18 804 046.70	15 209 107.90
Accumulated amortization, 1 Jan	8 369 327.60	8 459 024.54
Accumulated amortization for decreases and transfers	-15 634.47	-1 014 686.44
Amortization for the period	1 479 737.25	924 989.50
Accumulated amortization, 31 Dec	9 833 430.38	8 369 327.60
Book value, 31 Dec	8 970 616.32	6 839 780.30
Advance payments		
Acquisition cost, 1 Jan	792 728.30	-
Additions	-	792 728.30
Transfers	-792 728.30	-
Acquisition cost, 31 Dec	-	792 728.30
Book value of intangible assets, 31 Dec total	9 263 664.19	7 847 123.92

8. TANGIBLE ASSETS

EUR	31 Dec 2017	31 Dec 2016
Land		
Acquisition cost, 1 Jan	60 270.13	60 270.13
Acquisition cost, 31 Dec	60 270.13	60 270.13
Machinery and equipment		
Acquisition cost, 1 Jan	30 406 902.64	27 003 694.39
Additions	1 814 611.80	4 590 108.38
Decreases	-153 204.51	-1 207 001.93
Transfers	-208 841.27	20 101.80
Acquisition cost, 31 Dec	31 859 468.66	30 406 902.64
Accumulated depreciation, 1 Jan	23 982 494.90	23 666 054.41
Accumulated depreciation for decreases	-26 204.66	-1 172 727.01
Depreciation for the period	2 357 502.20	1 489 167.50
Accumulated depreciation, 31 Dec	26 313 792.44	23 982 494.90
Book value, 31 Dec	5 545 676.22	6 424 407.74
Other tangible assets		
Acquisition cost, 1 Jan	46 608.00	37 370.30
Additions	-	9 237.70
Acquisition cost, 31 Dec	46 608.00	46 608.00
Accumulated depreciations, 1 Jan	513.20	-
Depreciation for the period	3 079.22	513.20
Accumulated depreciation, 31 Dec	3 592.42	513.20
Book value, 31 Dec	43 015.58	46 094.80
Book value of tangible assets, 31 Dec total	5 648 961.93	6 530 772.67

9. INVESTMENTS

EUR	31 Dec 2017	31 Dec 2016
Subsidiary shares		
Acquisition cost, 1 Jan	937 325 863.87	931 770 570.10
Additions	993 772.36	5 820 940.98
Decreases	-1 305 722.94	-258 019.09
Write-downs	-	-7 628.12
Acquisition cost, 31 Dec	937 013 913.29	937 325 863.87
Book value, 31 Dec	937 013 913.29	937 325 863.87
Shares in associated companies		
Acquisition cost, 1 Jan	3 691 233.78	3 691 222.57
Additions	-	11.21
Acquisition cost, 31 Dec	3 691 233.78	3 691 233.78
Book value, 31 Dec	3 691 233.78	3 691 233.78
Other shares and interests		
Acquisition cost, 1 Jan	292 265.99	292 265.99
Decreases	-128 728.37	-
Acquisition cost, 31 Dec	163 537.62	292 265.99
Book value, 31 Dec	163 537.62	292 265.99
Investments, 31 Dec total	940 868 684.69	941 309 363.64

Subsidiary shares

See Note 28 in Notes to the consolidated financial statements.

Associated companies owned and managed by the parent company

See Note 29 in Notes to the consolidated financial statements.

Other shares and securities

See Note 16 in Notes to the consolidated financial statements.

See Note 26 in Notes to the consolidated financial statements for Fair Value calculation principles and note 20 in Notes to the Parent company's financial statements for Fair value Levels.

10. LONG-TERM RECEIVABLES

EUR	31 Dec 2017	31 Dec 2016
Loan receivable from Group companies		
Subordinated loan	42 971 210.30	-
Other loan receivables	3 314 515.97	4 285 203.29
Other receivables	212 418.03	236 733.08
	46 498 144.30	4 521 936.37

11. CURRENT INTERCOMPANY RECEIVABLES

EUR	31 Dec 2017	31 Dec 2016
Receivables from Group companies		
Accounts receivable	16 050 524.26	10 912 137.88
Loan receivables	1 234 442.06	3 200 474.27
Other receivables	4 690 290.41	17 747 865.80
Group contribution receivables	45 400 000.00	47 200 000.00
Prepaid expenses and accrued income	198 435.83	421 131.20
	67 573 692.56	79 481 609.15
Receivables from associated companies		
Accounts receivable	143 252.10	140 238.15
Prepaid expenses and accrued income	-	5 696.53
	143 252.10	145 934.68

12. PREPAID EXPENSES AND ACCRUED INCOME

EUR	31 Dec 2017	31 Dec 2016
Prepaid expenses and accrued income from Group companies		
Other	198 435.83	421 131.20
Prepaid expenses and accrued income from associated companies	-	5 696.53
Prepaid expenses and accrued income from other companies		
Licence fees	3 821 882.44	1 877 020.40
Rents	978 974.63	1 433.47
Social costs	88 363.77	179 401.62
Other	1 260 381.04	1 254 742.92
Total	6 149 601.88	3 312 598.41
Prepaid expenses and accrued income, total	6 348 037.71	3 733 729.61

13. CHANGES IN SHAREHOLDERS' EQUITY

EUR	31 Dec 2017	31 Dec 2016
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		
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	12 843 921.39	12 089 729.37
Share subscriptions based on stock options	-	754 192.02
Invested unrestricted equity reserve, 31 Dec	12 843 921.39	12 843 921.39
Retained earnings		
Retained earnings, 1 Jan	569 513 867.32	618 187 909.96
Shares distributed to personnel	668 572.49	1 280 363.57
Dividend distributions	-101 000 681.25	-99 361 904.85
Retained earnings, 31 Dec	469 181 758.56	520 106 368.68
Net profit for the period	103 456 963.28	49 407 498.64
Unrestricted equity total	585 482 643.23	582 357 788.71
Shareholders' equity, total	675 829 634.74	672 704 780.22
Distributable funds		
Invested unrestricted equity reserve	12 843 921.39	12 843 921.39
Retained earnings	469 181 758.56	520 106 368.68
Net profit for the period	103 456 963.28	49 407 498.64
Total	585 482 643.23	582 357 788.71
Breakdown of the parent's share capital		
Number of shares	74 109 252	74 109 252
Euros	76 555 412.00	76 555 412.00

14. PROVISIONS

EUR	31 Dec 2017	31 Dec 2016
Pension commitments	38 564.23	67 106.84
Restructuring commitments	571 103.25	2 127 098.86
	609 667.48	2 194 205.70

15. NON-CURRENT LIABILITIES

EUR	31 Dec 2017	31 Dec 2016
Bonds	100 000 000.00	100 000 000.00
Other non-current liabilities	5 834.27	5 881.98
	100 005 834.27	100 005 881.98

Fair value of bond has been calculated based on prevailing market rate at the end of the reporting period and as of 31 Dec 2017 was EUR 103 651 000 (EUR 105 792 000 in 2016).

16. CURRENT LIABILITIES

EUR	31 Dec 2017	31 Dec 2016
Liabilities to Group companies		
Accounts payable	1 154 662.49	3 294 048.46
Other liabilities including cash pool	172 834 189.16	208 857 050.67
Accrued liabilities and deferred income	9 783 550.47	4 918 886.55
	183 772 402.12	217 069 985.68
Liabilities to associated companies		
Accounts payable	9 413.35	2 601.03
Other liabilities	16 416 312.79	16 001 701.65
	16 425 726.14	16 004 302.68
Liabilities to other companies		
Accounts payable	8 519 021.30	10 082 659.50
Commercial papers	114 931 506.91	50 997 275.17
Other loans	-	286 153.87
Other current liabilities	1 729 704.12	1 518 526.53
Accrued liabilities and deferred income	12 412 606.63	10 127 692.02
	137 592 838.96	73 012 307.09
Current liabilities, total	337 790 967.22	306 086 595.45

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.

17. ACCRUED LIABILITIES AND DEFERRED INCOME

EUR	31 Dec 2017	31 Dec 2016
Accrued liabilities and deferred income from Group companies		
Personnel related expenses	541 277.77	523 570.85
Service fee	9 241 052.15	4 393 777.10
Interest	1 220.55	532.92
Other	-	1 005.68
Total	9 783 550.47	4 918 886.55
Accrued liabilities and deferred income from other companies		
Vacation pay and related social costs	1 868 031.76	2 032 459.96
Other accrued payroll and related social costs	1 749 253.78	1 011 554.11
Other social costs	196 760.75	21 294.04
Interest	1 764 647.16	1 749 792.57
Rents	3 412 691.43	3 218 105.28
Taxes	785 270.57	851 343.40
Other	2 635 951.18	1 243 142.66
Total	12 412 606.63	10 127 692.02
Accrued liabilities and deferred income, total	22 196 157.10	15 046 578.57

18. DEFERRED TAX ASSETS AND LIABILITIES

EUR	31 Dec 2017	31 Dec 2016
Deferred tax assets		
From temporary differences	1 214 948.20	1 490 183.93
From appropriations	-	90 943.81
Total	1 214 948.20	1 581 127.74
Deferred tax liabilities		
From appropriations	9 892.50	-
Total	9 892.50	-

Deferred tax items are not included in the balance sheet.

19. CONTINGENT LIABILITIES

EUR	31 Dec 2017	31 Dec 2016
For Tieto's obligations		
Pledges	-	-
On behalf of Group companies		
Guarantees	9 571 470.64	14 104 509.71
On behalf of joint ventures	-	-
On behalf of other companies		
Guarantees	-	-
Other Tieto obligations		
Rent commitments due in 2018 (2017)	14 404 125.00	13 958 854.00
Rent commitments due later	50 033 809.00	55 624 452.00
Lease commitments due in 2018 (2017)	284 032.34	312 727.41
Lease commitments due later	350 554.99	352 459.48

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 (EUR 15 million in 2016).

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 2017.

20. 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 2017	31 Dec 2016
Foreign exchange forward contracts	246 907 775.63	255 688 434.01
Electricity price futures contracts	939 306.00	539 966.40

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 2017	31 Dec 2016
Foreign exchange forward contracts	-169 373.49	1 315 609.00
Electricity price futures contracts	66 259.57	65 564.60

Derivatives are used for economic purposes only.

Gross positive fair values of derivatives	31 Dec 2017	31 Dec 2016
Foreign exchange forward contracts	2 006 702.80	2 956 526.50
Electricity price futures contracts	71 364.22	65 677.40
Gross negative fair values of derivatives	31 Dec 2017	31 Dec 2016
Foreign exchange forward contracts	-2 176 076.29	-1 640 917.50
Electricity price futures contracts	-5 104.64	-112.80

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 2017

EUR	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivatives	-	2 078 067.02	-	2 078 067.02
Available-for-sale investments	-	-	163 537.62	163 537.62
Financial liabilities at fair value through profit or loss				
Derivatives	-	-2 181 180.93	-	-2 181 180.93

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

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.

Change in Level 3 instruments for the year ended 31 December 2017 is due to sale and write off transactions, not result of revaluation.

21. 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 25 in Notes to the consolidated financial statements.

Dividend proposal, signatures for the Board of Directors' report and financial statements and Auditor's note

Dividend proposal

Distributable funds in the parent company	585 482 643.23
of which net profit for the current year	103 456 963.28

The Board of Directors proposes that the distributable funds mentioned above be used as follows:

a total dividend of EUR 1.40 per share to be paid to shareholders	103 212 375.00
EUR 1.20 (ordinary)	
EUR 0.20 (additional)	

the remainder be carried forward	482 270 268.23
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In the opinion of the Board of Directors the proposed dividend distribution does not endanger the solvency of the company.

Signatures for the Financial statements and Board of Directors' report

Espoo, 5 February 2018

Kurt Jofs
Chairman

Harri-Pekka Kaukonen
Deputy chairman

Timo Ahopelto

Johanna Lamminen

Sari Pajari

Endre Rangnes

Jonas Synnergren

Jonas Wiström

Esa Koskinen

Anders Palklint

Kimmo Alkio
President and CEO

The Auditors' Note

Our auditors' report has been issued today
Espoo, 5 February 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Tomi Hyryläinen
Authorised Public Accountant

Shares and shareholders

Share capital and shares

Tieto Corporation's issued and registered share capital on 31 December 2017 totaled EUR 76 555 412.00 and the number of shares was 74 109 252.

Tieto's shares have no par value and their book counter value 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 26 430 registered shareholders at the end of 2017. Based on the ownership records of the Finnish and Swedish central securities depositories, 38.1% of Tieto's shares were held by Finnish and 3.7% by Swedish investors. In total, there were 24 816 retail investors in Finland and Sweden and they held 12% of Tieto's shares.

The members of the Board of Directors, the President and CEO and their close associates together held 0.1% of the shares and votes registered in the book-entry system on 31 December 2017. The President and CEO is also participating in Tieto's long-term share-based incentive plans. 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.

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 2017), 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 2017. 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. 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 2017, the number of shares in the company's or its subsidiaries' possession totalled 386 127 representing 0.5% of the total number of shares and voting rights. Related to the company's share-based reward plan, a total of 25 555 shares held by Tieto were transferred to the participants of the plan. The number of outstanding shares, excluding the treasury shares, was 73 723 125 at the end of the year.

Share-based incentives

Tieto has established share-based incentive plans, a Performance Share Plan 2015, 2016 and 2017 and a Restricted Share Plan 2015, 2016 and 2017. The potential rewards will be paid partly in the company's shares and partly in cash, respectively in 2018, 2019 and 2020. The share rewards to be delivered to the participants 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 plans, correspond to the value of an approximate maximum total of 1 440 000 Tieto shares (including the proportion to be paid in cash).

The company has not issued any bonds with warrants nor has any stock options programmes.

Board authorizations

The 2017 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 7 400 000 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

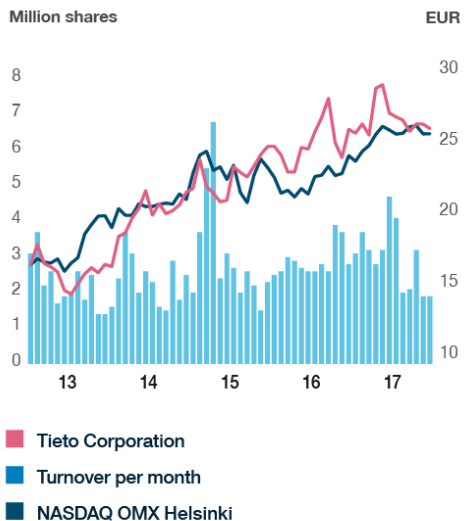
In 2017, the turnover of Tieto's shares totalled EUR 963.9 million (35 895 771 shares) in Helsinki and SEK 658.5 million (2 540 715 shares) in Stockholm. The combined trading volume represented 52% of the shares. On NASDAQ Helsinki, the volume-weighted average share price in 2017 was EUR 26.85. At the end of the year, the share price was

EUR 25.98. The highest price was EUR 29.98 and the lowest EUR 24.39. At the end of the year, the company's market capitalization totalled EUR 1 925.4 (1 920.9) million. The share price remained at the year-end 2016 level in Helsinki and rose by 2% in Stockholm during the year. At the same time, the OMX Helsinki Price Index rose by 6%. The OMX Stockholm Price Index was up by 6% in 2017.

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 16 858 929 shares, or approximately 30% of the total trading volume.

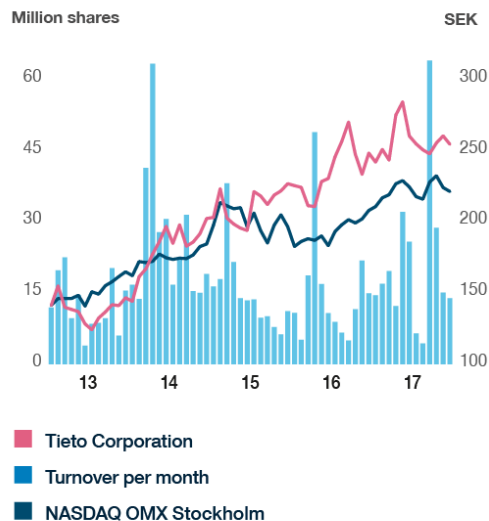
For additional information on shares and shareholders, see www.tieto.com/Investors/Shares.

Share price development and turnover, Helsinki



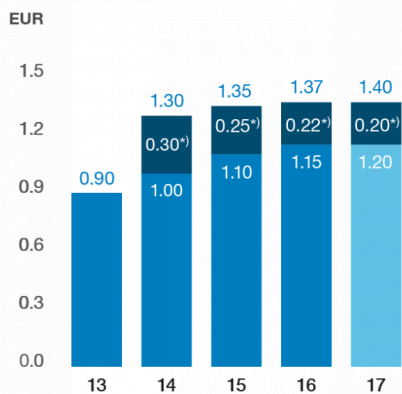
Source: Thomson Reuters

Share price development and turnover, Stockholm



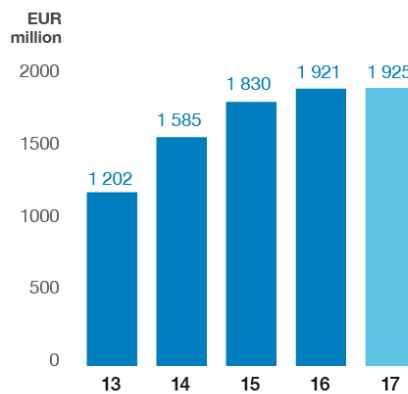
Source: Thomson Reuters

Dividend / share, EUR



¹⁾ Additional dividend EUR

Market capitalization, EUR million



Major shareholders on 31 December 2017

	Shares	%
1 Cevian Capital ¹⁾	11 066 684	14.9
2 Solidium Oy	7 415 418	10.0
3 Silchester International Investors LLP ²⁾	7 401 027	10.0
4 Swedbank Robur fonder	1 883 968	2.5
5 Ilmarinen Mutual Pension Insurance Co.	1 571 423	2.1
6 Elo Pension Co.	838 648	1.1
7 The State Pension fund	773 000	1.0
8 Nordea Funds	758 259	1.0
9 OP-Finland Value Fund	675 050	0.9
10 Svenska litteratursällskapet i Finland r.f.	541 345	0.7
Top 10 shareholders total	32 924 822	44.4
- of which nominee registered	20 351 679	27.5
Nominee registered other	24 968 124	33.7
Others	16 216 306	21.9
Total	74 109 252	100.0

Based on the ownership records of Euroclear Finland Oy and Euroclear Sweden AB.

¹⁾ Based on the ownership records of Euroclear Finland Oy, Cevian Capital's holding on 31 August 2017 was 11 066 684 shares, representing 14.9% of the shares and voting rights.

²⁾ 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 2017, % of shares



■ Corporations	12.5%
■ Finance and insurance institutions	5.0%
■ Public organizations	5.6%
■ Households	10.8%
■ Non-profit organizations	4.2%
■ Foreign	0.7%
■ Nominee registered	61.2%

Number of shares	Shareholders		Shares	
	No	%	No	%
1 - 100	6 208	37.6	345 997	0.5
101 - 500	6 530	39.6	1 714 897	2.3
501 - 1 000	1 878	11.4	1 445 035	1.9
1 001 - 5 000	1 551	9.4	3 316 236	4.5
5 001 - 10 000	165	1.0	1 157 943	1.6
10 001 - 50 000	101	0.6	2 247 258	3.0
50 001 - 100 000	23	0.1	1 515 929	2.0
100 001 - 500 000	25	0.2	5 214 046	7.0
500 001 -	10	0.1	57 141 351	77.1

Based on the ownership records of Euroclear Finland Oy

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
Subscriptions with stock options, registered in 2017	0	0
Total on 31 December 2017	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

Information for shareholders

SHAREHOLDER CALENDAR 2018

- Record date for the AGM 12 March
 - Registration period 16 February–16 March 3.00 pm EET
 - Annual General Meeting 22 March
 - Ex-dividend date 23 March
 - Record date for dividend payment 26 March
 - Payment of the dividend as from 9 April
-
- Interim report 1/2018 26 April
 - Interim report 2/2018 20 July
 - Interim report 3/2018 24 October

ANNUAL GENERAL MEETING

The Annual General Meeting of Tieto Corporation will be held on Thursday 22 March 2018 at 4.00 pm (Finnish time) at the Tieto headquarters, address Keilalahdentie 2-4, Espoo, Finland.

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

Shareholders registered in the shareholders' register

Each shareholder registered on 12 March 2018 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 16 March 2018 by 3.00 pm (EET) either:

- 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) or
- by mail to Tieto, Legal/AGM, P.O. Box 2, FI-02101 Espoo, Finland

Possible proxy documents should be delivered in originals to Tieto, Legal/AGM, P.O. Box 2, FI-02101 Espoo, Finland before 16 March 2018.

Holders of nominee registered shares

A holder of nominee registered shares has the right to participate in the general meeting by virtue of such shares, based on which he/she on the record date of the general meeting, i.e. on 12 March 2018, would be entitled to be registered in the shareholders' register of the company held by Euroclear Finland Oy.

The right to participate in the general meeting requires, in addition, that the shareholder on the basis of such shares has been registered into the temporary shareholders' register held by Euroclear Finland Oy at the latest by 19 March 2018 by 10 am (EET). As regards nominee registered shares this constitutes due registration for the general meeting.

A holder of nominee registered shares is advised to request without delay necessary instructions regarding the registration in the temporary shareholder's register of the company, the issuing of proxy documents and registration for the general meeting from his/her custodian bank.

The account management organization of the custodian bank will register a holder of nominee registered shares, who wants to participate in the Annual General Meeting, into the temporary shareholders' register of the company at the latest by 19 March 2018 by 10 am (EET).

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 Annual General Meeting must:

1. be registered in the shareholders' register maintained by Euroclear Sweden AB not later than on 2 March 2018.

Shareholders whose shares are registered in the name of a nominee must, in order to be eligible to request a temporary registration in the shareholders' register of Tieto Oyj maintained by Euroclear Finland Oy, request that their shares are re-registered in their own names in the register of shareholders maintained by Euroclear Sweden AB, and procure that the nominee sends the above mentioned request for temporary registration to Euroclear Sweden AB on their behalf. Such reregistration must be made as of 12 March 2018 and the nominee should therefore be notified well in advance.

2. 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 13 March 2018 at 15.00 Swedish time.

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 Annual General Meeting 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 Annual General Meeting. When a shareholder participates in the Annual General Meeting 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 Annual General Meeting.

Further information on attending the AGM at www.tieto.com/agm.

Dividend payment

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.20 per share and an additional dividend of EUR 0.20 be paid from the distributable assets for the financial year that ended on 31 December 2017. The dividend shall be paid to shareholders who on the record date for the dividend payment on 26 March 2018 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 9 April 2018.

Further information on the AGM at www.tieto.com/agm

Auditor's report (Translation of the Finnish Original)

To the Annual General Meeting of Tieto Corporation

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion,

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of 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.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Tieto Corporation (business identity code 0101138-5) for the year ended 31 December 2017. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

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.

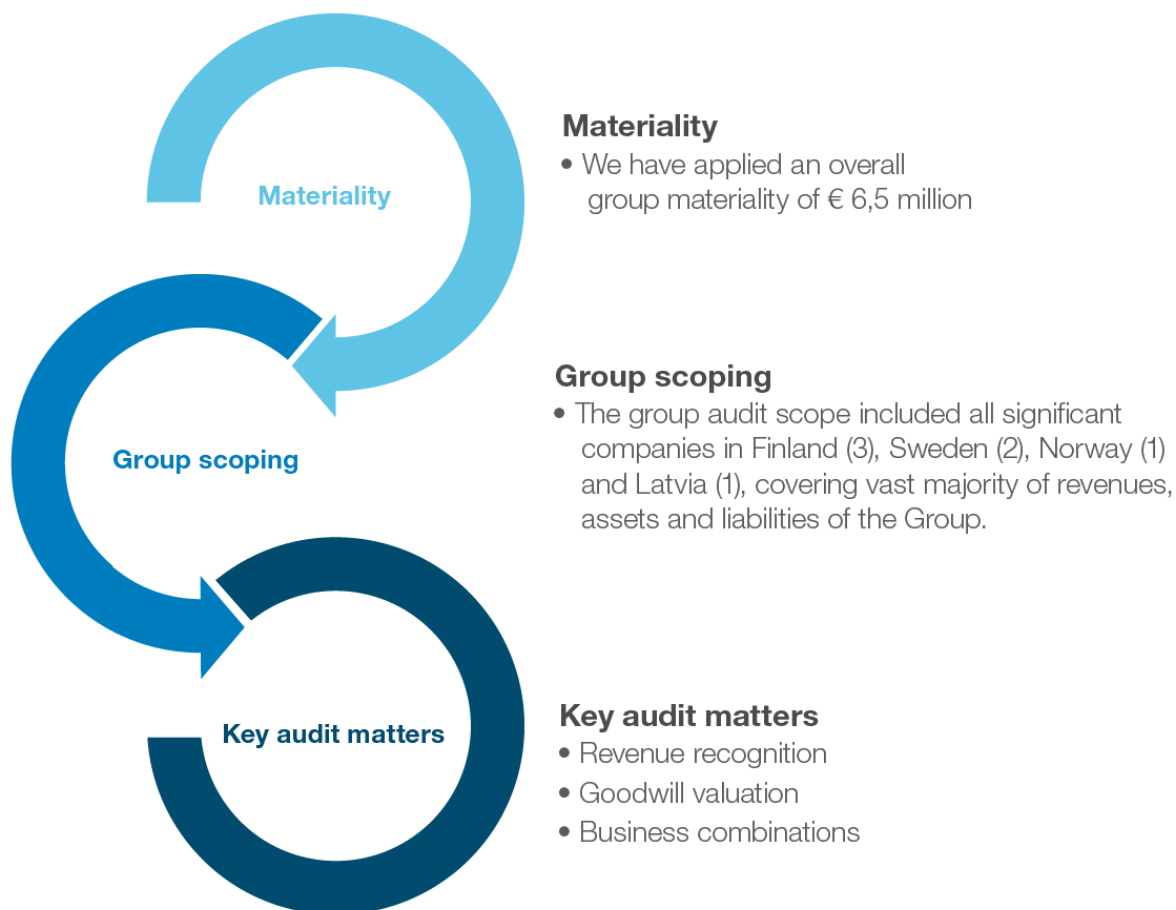
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in [note 4](#) to the Financial Statements.

Our audit approach

Overview



As part of designing our audit, we determined materiality and assessed 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.

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	€ 6,5 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.

How we tailored our group audit scope

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 in the audit of the group**How our audit addressed the key audit matter****Revenue recognition**

Refer to accounting policies for the consolidated financial statements and notes 1 and 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 goodwill

Refer to accounting policies for the consolidated financial statements and notes 14 and 31.

Goodwill is one of the most significant Tieto balance sheet items and amounts to € 441,3 million. The determination on which cash generating unit level the goodwill is tested and 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. This is why we defined this area as a key audit matter.

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.

Business combinations

Refer to accounting policies for the consolidated financial statements and note 30.

During 2017 Tieto acquired the Swedish company Avega Group AB (publ) for a total consideration of € 47,4 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 (€ 6,2 million) in the form of customer relationships. Resulting goodwill amounted to € 40,6 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;
- assumed useful lives of the customer relationships; and
- discount rate applicable to the transaction.

We have no key audit matters to report with respect to our audit of the parent company financial statements. There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of 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 parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is 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 with 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 so that the financial statements give a true and fair view.
- 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

Appointment

We were first appointed as auditors by the annual general meeting on 23 March 2006. Our appointment represents a total period of uninterrupted engagement of 11 years.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included 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 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 the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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 laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 5 February 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Tomi Hyryläinen
Authorised Public Accountant (KHT)

Tieto's online Annual Report is available at
www.tieto.com/ar2017

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