## Governance

<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Corporate Governance Statement</td>
</tr>
<tr>
<td>4</td>
<td>Annual General Meeting</td>
</tr>
<tr>
<td>5</td>
<td>Shareholders' Nomination Board (SNB)</td>
</tr>
<tr>
<td>7</td>
<td>The Board of Directors</td>
</tr>
<tr>
<td>12</td>
<td>The President and CEO and operative management</td>
</tr>
<tr>
<td>14</td>
<td>Internal control and risk management</td>
</tr>
<tr>
<td>16</td>
<td>Major risks</td>
</tr>
<tr>
<td>19</td>
<td>Related-party transactions</td>
</tr>
<tr>
<td>19</td>
<td>Insider administration</td>
</tr>
<tr>
<td>20</td>
<td>Auditors</td>
</tr>
<tr>
<td>21</td>
<td>Remuneration Statement</td>
</tr>
<tr>
<td>27</td>
<td>Letter from the Chairman of the Remuneration Committee</td>
</tr>
</tbody>
</table>
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 The Board of Directors section.

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

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

This document and previous statements have been published on the company’s website at www.tieto.com/investors. Updated and additional information is also available on the website. The Governance section of the website provides further information on matters such as the Annual General Meeting (AGM), Articles of Association, Board of Directors, Leadership Team and auditors, as well as remuneration.
Tieto’s supreme decision-making body is the AGM. Every shareholder has a right to participate in the AGM and each share in Tieto entitles its holder to one vote. However, no shareholder is allowed to vote at a General Meeting with more than one fifth (1/5) of the votes represented at the meeting.

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

The following persons are present at Tieto’s AGM:

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

For more information regarding the AGM 2017 and previous meetings, shareholders and participation possibilities, please visit the company’s website.

**Tieto’s AGM 2016**

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

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

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

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

Nominated by Cevian Capital Partners Ltd:

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

Nominated by Solidium Oy:

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

Nominated by Ilmarinen Mutual Pension Insurance Company:

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

Nominated by Elo Mutual Pension Insurance Company:

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

Representing the Board of Directors of Tieto Corporation:

Markku Pohjola

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

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

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

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

Composition and election of Tieto's Board of Directors

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

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

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

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

The objectives of personnel representation are, inter alia, to provide opportunities for the personnel to influence and affect the organization, to improve communication and decision making within the Group, to increase mutual trust and confidence between corporate management and the personnel as well as to increase and develop the feeling of security among the personnel. The personnel representatives, however, are not entitled to participate in the handling of matters that concern the appointment or dismissal of corporate management, the contractual terms of the management, the terms of employment of staff or matters related to industrial actions.
**Board of Directors as at 31 December 2016**

<table>
<thead>
<tr>
<th>Name</th>
<th>Born</th>
<th>Nationality</th>
<th>Education</th>
<th>Main occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Markku Pohjola (Chairman)</td>
<td>1948</td>
<td>Finnish</td>
<td>BSc. (Econ.)</td>
<td>Professional Board member</td>
</tr>
<tr>
<td>Kurt Jofs (Deputy Chairman)</td>
<td>1958</td>
<td>Swedish</td>
<td>MSc. (Eng.)</td>
<td>Entrepreneur, investor and Board member</td>
</tr>
<tr>
<td>Harri-Pekka Kaukonen</td>
<td>1963</td>
<td>Finnish</td>
<td>DSc. (Tech.)</td>
<td>Professional Board member</td>
</tr>
<tr>
<td>Johanna Lamminen</td>
<td>1966</td>
<td>Finnish</td>
<td>DSc. (Tech.), MBA</td>
<td>CEO, Gasum Ltd</td>
</tr>
<tr>
<td>Sari Pajari</td>
<td>1968</td>
<td>Finnish</td>
<td>MSc. (Eng.)</td>
<td>SVP, Supply Chain and Business Development, Metsä Board Oy</td>
</tr>
<tr>
<td>Eindre Rangnes</td>
<td>1959</td>
<td>Norwegian</td>
<td>BBA (Econ.)</td>
<td>Professional Board member</td>
</tr>
<tr>
<td>Jonas Synnergren</td>
<td>1977</td>
<td>Swedish</td>
<td>MSc. (Econ.)</td>
<td>Partner, Cevian Capital AB</td>
</tr>
<tr>
<td>Lars Wollung</td>
<td>1981</td>
<td>Swedish</td>
<td>MSc. (Econ.), MSc. (Engineering)</td>
<td>Professional Board member</td>
</tr>
<tr>
<td>Esa Koskinen (Personnel representative)</td>
<td>1955</td>
<td>Finnish</td>
<td>MSc. (Econ.)</td>
<td>Test Engineer</td>
</tr>
<tr>
<td>Anders Palklint (Personnel representative)</td>
<td>1967</td>
<td>Swedish</td>
<td>MSc. (Electrical Engineering)</td>
<td>Senior Project Manager</td>
</tr>
</tbody>
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**Independency and attendance at Board and its Committees’ meetings in 2016**

<table>
<thead>
<tr>
<th>Name</th>
<th>Member since</th>
<th>Independent</th>
<th>Board</th>
<th>Audit &amp; Risk Committee</th>
<th>Remuneration Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Markku Pohjola</td>
<td>2009</td>
<td>Yes</td>
<td>10/10</td>
<td>-</td>
<td>7/7</td>
</tr>
<tr>
<td>Kurt Jofs</td>
<td>2010</td>
<td>Yes</td>
<td>10/10</td>
<td>6/6</td>
<td>2/2</td>
</tr>
<tr>
<td>Harri-Pekka Kaukonen</td>
<td>2016</td>
<td>Yes</td>
<td>9/9</td>
<td>-</td>
<td>5/5</td>
</tr>
<tr>
<td>Johanna Lamminen</td>
<td>2016</td>
<td>Yes</td>
<td>8/9</td>
<td>6/6</td>
<td>-</td>
</tr>
<tr>
<td>Eva Lindqvist</td>
<td>2010</td>
<td>Yes</td>
<td>1/1</td>
<td>1/1</td>
<td>-</td>
</tr>
<tr>
<td>Sari Pajari</td>
<td>2012</td>
<td>Yes</td>
<td>10/10</td>
<td>-</td>
<td>7/7</td>
</tr>
<tr>
<td>Eindre Rangnes</td>
<td>2014</td>
<td>Yes</td>
<td>9/10</td>
<td>-</td>
<td>7/7</td>
</tr>
<tr>
<td>Teuvo Salminen</td>
<td>2010</td>
<td>Yes</td>
<td>1/1</td>
<td>1/1</td>
<td>-</td>
</tr>
<tr>
<td>Jonas Synnergren</td>
<td>2012</td>
<td>No</td>
<td>10/10</td>
<td>7/7</td>
<td>-</td>
</tr>
<tr>
<td>Lars Wollung</td>
<td>2015</td>
<td>Yes</td>
<td>10/10</td>
<td>6/7</td>
<td>-</td>
</tr>
<tr>
<td>Esa Koskinen</td>
<td>2014</td>
<td>-</td>
<td>9/10</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Anders Palklint</td>
<td>2014</td>
<td>-</td>
<td>10/10</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

1) Board member as from 22 March 2016.
2) Board member until 22 March 2016.
All Board members of Tieto are independent of the company and seven out of eight members are independent of the company’s significant shareholders. The independence of the members is evaluated at the Board’s constitutive meeting. The Board members shall inform the Board if any changes in these circumstances occur, in which case their independence will be re-evaluated.

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

Tasks of Tieto’s Board

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

More specifically, the Board:

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

Work of Tieto’s Board

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

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

Work of Tieto’s Board in 2016

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

Assessment of the Board

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

Board committees

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

Remuneration Committee (RC)

The RC comprises at least three non-executive directors elected by the Board. The majority of the members shall be independent of the company. The head of Human Resources (HR) acts as secretary of the meetings.
In 2016, all committee members were non-executive directors who were independent of the company and of significant shareholders. Based on the Board’s decision, the RC was composed of:

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

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

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

**Work of Tieto’s RC in 2016**

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

**Audit and Risk Committee (ARC)**

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

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

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

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

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

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

Work of Tieto’s ARC in 2016

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

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

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

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

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

Members of the Leadership Team as at 31 December 2016

Kimmo Alkio
President and CEO
Born: 1963
Nationality: Finnish
Education: BBA and Executive MBA
Joined the company in 2011

Håkan Dahlström
Executive Vice President, Technology Services and Modernization
Born: 1962
Nationality: Swedish
Education: MSc. (Eng.)
Joined the company in 2014

Lasse Heinonen
Chief Financial Officer
Born: 1968
Nationality: Finnish
Education: MSc. (Econ.)
Joined the company in 2011

Per Johanson
Executive Vice President, Financial Services
Born: 1962
Nationality: Swedish
Education: BA, Marketing and MBA
Joined the company in 2009

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

Ari Karppinen
Executive Vice President, Chief Technology Officer
Born: 1957
Nationality: Finnish
Education: MSc. (Eng.)
Joined the company in 1987
Satu Kiiskinen
Executive Vice President, Industrial and Consumer Services
Born: 1965
Nationality: Finnish
Education: MSc. (Econ.)
Joined the company in 2013

Katariina Kravi
Executive Vice President, Human Resources
Born: 1967
Nationality: Finnish
Education: LL.M., trained on the bench
Joined the company in 2012

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

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

The remuneration of the Leadership Team is presented in the tables of the Remuneration Statement. More detailed background information, such as full CVs of the Leadership Team, is presented on the company's website at www.tieto.com/Investors.
Internal control and risk management

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

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

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

Risk Management Framework

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

ARC review of financial risks
Responsibility: CFO

ARC review of risk maps and internal control
Responsibility: CRO

Risk section in annual reporting
Responsibility: CRO

ARC and Board review of strategic risks
Responsibility: CEO/CRO

IA Annual Report, Review of IA plan
Responsibility: Chief IA

Review of operational and delivery risks
in each ARC meeting
Responsibility: CRO, Head of Quality

Status report of Internal Audit Plan
Responsibility: Chief IA

Review of compliance risks
Responsibility: CRO, Compliance Officer and Chief IA

Risk section in Interim report
Responsibility: CRO

CRO: Chief Risk Officer
IA: Internal Audit
The risk management framework consists of the risk management organization, related policies, operating principles and tools. The risk management organization develops and maintains the company’s risk management framework, including risk reporting, risk management governance and follow-up of risk exposures consisting of strategic, financial, operational and compliance risks.

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

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

Continuous development of the risk framework

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

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

Financial control

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

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

Financial reporting process and responsibilities

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

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

Internal audit

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

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

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

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

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

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

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

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

Market volatility

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

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

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

Change and transformation

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

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

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

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

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

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

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

Quality costs related to customer bidding and delivery management

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

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

Retention of employees

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

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

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

Credit risks

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

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

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

Currency risks

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

As a substantial proportion of the Group’s consolidated revenues are generated in Sweden, fluctuations of the Swedish krona against the euro may have an impact on the consolidated financial statements.
Tieto’s Treasury Policy defines the principles and risk limits under which Group Treasury manages currency risks.

**Liquidity risks**

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

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

**Governance of risk and compliance**

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

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

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

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

Insider administration

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

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

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

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

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

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

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

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

The Audit and Risk Committee has prepared its recommendation in accordance with the EU Audit Regulation and in a full-scale selection procedure. The Committee has comprehensively assessed the received offers against the predefined selection criteria. In addition to knowledge and competences, the Committee has considered the quality and expense risk related to the change of the auditor and, on the other hand, the integrity of the auditor.

In its recommendation to the Board of Directors, the Audit and Risk Committee placed second the firm of authorized public accountants Ernst & Young Oy.

Auditing

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

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

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

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

Remuneration of the Board

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

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

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

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

In addition to the aforementioned share remuneration, the Board members do not belong to or are not compensated with other share-based arrangements, nor do the members have any pension plans at Tieto. Tieto executives or employees are not entitled to compensation for their Board positions or meeting attendance in the Group companies. None of the Board members, except the personnel representatives, have an employment relationship or service contract with Tieto.
Compensation of individual Board members and Board in 2016

<table>
<thead>
<tr>
<th>Name</th>
<th>Annual remuneration</th>
<th>Meeting based, EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Markku Pohjola (Board and RC Chairman)</td>
<td>EUR 49 280</td>
<td>EUR 1 391</td>
</tr>
<tr>
<td>Kurt Jofs (Deputy Chairman and ARC Chairman)</td>
<td>EUR 31 167</td>
<td>EUR 880</td>
</tr>
<tr>
<td>Teuvo Salminen (ARC Chairman)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Harri-Pekka Kaukonen</td>
<td>EUR 20 488</td>
<td>EUR 578</td>
</tr>
<tr>
<td>Johanna Lamminen</td>
<td>EUR 20 488</td>
<td>EUR 578</td>
</tr>
<tr>
<td>Eva Lindqvist</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Sari Pajari</td>
<td>EUR 20 488</td>
<td>EUR 578</td>
</tr>
<tr>
<td>Endre Rangnes</td>
<td>EUR 20 488</td>
<td>EUR 578</td>
</tr>
<tr>
<td>Jonas Synnergren</td>
<td>EUR 20 488</td>
<td>EUR 578</td>
</tr>
<tr>
<td>Lars Wollung</td>
<td>EUR 20 488</td>
<td>EUR 578</td>
</tr>
<tr>
<td><strong>In total</strong></td>
<td>EUR 203 377</td>
<td>Shares 5 739</td>
</tr>
</tbody>
</table>

Board of Directors’ shareholdings in Tieto

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

4) The Board members have not received any other benefits.
5) Gross compensation before taxes.
6) Shares were purchased and delivered in April 2016.
7) ARC Chairman as from 22 March 2016.
8) Board member until 22 March 2016.
9) Board member as from 22 March 2016.
10) Corporations over which the Board members exercise control did not have shares nor share-based rights on 31 December 2016.

Remuneration of the Leadership Team

Remuneration of the Leadership Team members consists of

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

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

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

Share-based long-term incentives

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

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

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

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

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

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

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

Pension plans

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

Most of the additional schemes are classified as defined contribution plans. 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.

The exception is the scheme of one member who is covered by a fund-based pension system previously adopted by Tieto.
**President and CEO**

Kimmo Alkio

<table>
<thead>
<tr>
<th>Salary</th>
<th>EUR 600 000/year (EUR 50 000/month) including car benefit. Total EUR 600 000.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>EUR 3 146</td>
</tr>
</tbody>
</table>

**Basis of bonus**

Target 50% of base salary based on the Group’s external revenue, profit, TCV and strategy implementation when achievements meet the targets.

Maximum 100% of base salary based on the Group’s external revenue, profit, TCV and strategy implementation when achievements exceed the targets.

Weighting of the reward factors

- Profit of the company 30%
- External revenue of the company 20%
- TCV 20%
- Strategy implementation 30%

**Additional success-based incentive**

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.

**Long-Term Incentive Programme 2012-2014**

In spring 2015, a total of 12 742 shares were transferred as a reward from Performance Periods 2014 and 2013-2014 to the President and CEO. The shares are under transfer restriction according to the terms of the programme. Current value of the shares under lock-up amounts to EUR 330 273.12

**Share-Based Reward Plan**

In January 2017, a total of 4 256 shares were transferred based on the plan run until the end of 2016. The fair value of these shares amounted to EUR 110 316.13

**Long-Term Incentive Plan 2015-2017**

Entitled to 20 000 Performance Shares if the target levels of the performance metrics are met, 40 000 shares at maximum. The performance period of the plan is 2015-2017. The fair value of these allocations amounts to EUR 451 008.14

**Long-Term Incentive Plan 2016-2018**

Entitled to 20 000 Performance Shares if the target levels of the performance metrics are met, 40 000 shares at maximum. The performance period of the plan is 2016-2018. The fair value of these allocations amounts to EUR 575 424.15

**Share ownership guideline**

The recommended minimum investment in the company’s shares corresponds to the executive’s one-time annual gross base salary.

**Expenditures related to share-based incentives**

EUR 350 661

**Retirement age**

63

**Pension expenditure**

In 2016, EUR 283 741.

In addition to the statutory pension provision: a defined contribution pension plan where the expenditure is 23% of the annual base salary.15

**Period of notice**

If the agreement is terminated by Tieto, the period of notice is twelve months.

If the agreement is terminated by the President and CEO, the period of notice is six months.

**Severance payment**

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 merge, 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 merge.

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.

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

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

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

15 Payments to defined contribution plans are recognized as expenses for the period to which they relate. After payment of the contribution the Group has no further obligations in respect of such plans.
Updated information on the shares and options held by the President and CEO is available on the company’s website at [www.tieto.com/Investors](http://www.tieto.com/Investors) under the insider register.

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

## Leadership Team (excluding the President and CEO)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total salaries</td>
<td>EUR 2 678 598</td>
</tr>
<tr>
<td>Total benefits</td>
<td>EUR 97 936</td>
</tr>
<tr>
<td>Special payments</td>
<td>EUR 0</td>
</tr>
</tbody>
</table>

### Basis of bonus

The basis of the bonus as well as target and maximum amounts for bonuses vary between the Leadership Team members. The purpose of the bonus is to reward for company performance and individual performance.

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:

- Profit of the company
- External revenue
- Cash flow improvement

Other LT members: In addition to individual performance measurement, the bonus is based on:

- Company and/or
- Own Industry Group- or Service Line-related performance criteria (operative margin, external revenue and other operational targets)

### Long-Term Incentive Programme 2012–2014

The reward to be paid to other members of the Leadership Team on the basis of the Long-Term Incentive Programme 2012–2014 at target corresponds to 30–40% of the annual gross salary and at maximum 60–80% of the annual gross salary.

A total of 2 744 shares were delivered in 2016 to LT members (excl. CEO) for Performance Periods 2014 and 2012-2014. The value of the total rewards paid in 2016 was EUR 159 179.

A total of 20 776 shares are under transfer restriction according to the terms of the programme. The current value of the shares under lock-up is EUR 538 514.

### Share-Based Reward Plan

In January 2017, a total of 10 790 shares were transferred to the Leadership Team members based on the plan run until the end of 2016. The fair value of these shares amounted to EUR 278 900.

### Long-Term Incentive Plan 2015–2017

Leadership team members are entitled to 97 600 Performance Shares if the maximum levels of the performance metrics are met and 12 000 Restricted Shares. Performance period of the plan is 2015–2017. The fair value of these allocations is EUR 1 411 500.

### Long-Term Incentive Plan 2016–2018

Leadership Team members are entitled to 94 000 Performance Shares if the maximum levels of the performance metrics are met and 10 000 Restricted Shares. The performance period of the plan is 2015–2017. The fair value of these allocations is EUR 1 611 446.

### Expenditures related to share-based incentives (including option programmes)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR 1 082 137</td>
<td></td>
</tr>
</tbody>
</table>

### Share ownership guideline

The recommended minimum investment in the company’s shares corresponds to the executive’s one-time annual gross base salary.

### Retirement age

According to applicable local regulations.

### Pension expenditure

In 2016, in total EUR 1 349 766.

CFO: In addition to the statutory pension provision: a defined contribution pension plan where the expenditure is 23% of the annual base salary.

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.

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.

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

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


19 Payments to defined contribution plans are recognized as expenses for the period to which they relate. After payment of the contribution the Group has no further obligations in respect of such plans.
The compensation of the whole Leadership Team in 2016 is also summarized in note 9 of the financial statements. The remuneration statement is available on the company’s website at www.tieto.com/Investors.

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

Dear Shareholder,

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

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

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

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

At the beginning of 2016, the Remuneration Committee approved the incentive payouts for the financial year 2015. Tieto paid out a total of EUR 27.5 million to the management and employees as short-term incentives and bonuses. That reflects the positive development of profitability while the amount is somewhat below the target-level incentives due to the tough targets we had set for ourselves. The 2015 short-term incentive payout to the President and CEO was based on both the agreed financial goals and success in strategy execution. During the year, the Remuneration Committee also reviewed the short-term incentive performance targets for 2016 and ensured that they are aligned with our new growth strategy. The committee closely followed up the progress and performance throughout the year.

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

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

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

Markku Pohjola
Chairman of the Remuneration Committee
Tieto’s online Annual Report is available at www.tieto.com/ar2016