

Tax footprint, management and control in 2022

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Tax footprint

A company's tax footprint illustrates the extent to which the company's activities generate tax revenues for society and the distribution of the tax effect between countries. VTT reports paid and collected taxes as part of its tax footprint. Transparent tax footprint reporting is an essential part of VTT's responsibility activities. VTT complies with local legislation on the payment, collection and reporting of taxes. In its tax practices, VTT follows the guidelines issued by the Prime Minister's Office to the state-owned companies.

Timely and high-quality management of tax returns and other statutory obligations is a key element of VTT's tax management. VTT's tax footprint report covers taxes and tax-like charges, which VTT has a statutory obligation to pay or collect.

At the end of the fiscal year, in addition to the parent company, VTT Group consisted of four wholly owned subsidiaries: VTT Ventures Ltd, VTT International Ltd, VTT SenseWay Oy and VTT Holding Oy. At the end of the financial year, VTT Ventures Ltd owned 17 associated and other companies (so-called spin-off companies) and VTT Holding Oy 8 other companies. VTT Ventures Ltd's associated companies are not included in VTT Group's tax footprint reporting. VTT does not have subsidiaries in countries seen as tax havens.

Like other limited liability companies, the parent company and its subsidiaries are subject to income tax and value added tax based on the Act on the Taxation of Business Income and the Value Added Tax Act.

In accordance with the act on VTT's incorporation (Act on the limited liability company called VTT Technical Research Centre of Finland Ltd (761/2014)), the state of Finland compensates VTT for the share of value added tax included in costs of purchases and rent of office premises for activities other than business activities based on commercial principles as referred to in Section 1 subsection 1 sub-topic 1 of the Value Added Tax Act (1501/1993). The compensation is adjusted annually on the basis of the most recent value added tax accrued for the company.

The parent company's taxable income in 2022 was EUR 4.1 million. The parent company has statutory provisions entered in its opening balance sheet. The use of these statutory provisions against realised costs does not constitute taxable income. The statutory provisions have not been recognised as deferred tax assets in the parent company's financial statements. However, deferred tax assets have been accounted for in the consolidated financial statements in accordance with the prudence principle, by recording EUR 1.6 million in deferred tax assets. The Group's subsidiaries also have confirmed losses, but in accordance with the prudence principle, no deferred tax assets were recognised in the consolidated financial statement.

M€	VTT Group		Parent company		Subsidiaries	
	2022	2021	2022	2021	2022	2021
Taxes borne						
Income taxes	0.7	1.6	0.7	1.6	0.0	0.0
Taxes on property	0.0	0.0	0.0	0.0	0.0	0.0
	0.7	1.6	0.7	1.6	0.0	0.0
Taxes collected						
Payroll taxes	30.1	30.0	29.8	29.8	0.2	0.2
Social security contributions	1.6	1.8	1.6	1.8	0.0	0.0
Value-added taxes	8.3	8.5	8.3	8.4	0.0	0.1
Asset transfer taxes	0.0	0.0	0.0	0.0	0.0	0.0
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0
	39.9	40.3	39.7	40.0	0.3	0.3
Total taxes	40.6	41.9	40.4	41.6	0.3	0.3
%-share	100%	100%	99%	99%	1%	1%

Relevant taxes and charges by category. The Group's parent company is reported separately and the subsidiaries as a whole.

The Group's effective income tax rate in 2022 was 11%. The majority of taxes were paid in Finland.

In the financial year 2022, the Group's parent company received EUR 101.6 million (previous year: EUR 109.3 million) in government grant. A total of EUR 13.0 million (previous year: EUR 4.3 million) of government grant was carried over from the previous year making the total amount of government grant available EUR 114.6 million (EUR 113.6 million). VTT used EUR 102.4 million (EUR 100.6 million) of the government grant.

As part of the government grant, the parent company received VAT compensation from the Ministry of Economic Affairs and Employment for value added tax included in costs of purchases and rent of office premises for activities other than business activities based on commercial principles. EUR 18.6 million of VAT compensation was used during the financial year (previous year: EUR 17.0 million). In addition, the parent company received EUR 0.5 million of government special grant for the decommissioning of FIR1 research reactor and restoration of Otakaari 3 research facility, and EUR 5.5 million for building a quantum computer.

The parent company received EUR 5.4 million in investment grants (EUR 4.3 million).

The tax reporting of VTT Group is audited by VTT's auditor Authorized Public Accountants KPMG Oy Ab to the extent that such reporting is included in VTT's financial statements.

Governance and control system

In all decision-making and governance, the company complies with Finnish laws and regulations and the Articles of Association. The tasks of VTT's and its subsidiaries' various bodies are governed by the laws of Finland. VTT complies with the corporate governance principles defined by the Board of Directors, which are based on the Finnish Companies Act. VTT is committed to the Finnish Corporate Governance Code.

According to the Board of Directors' evaluation, the members of the Board are independent of the company and its significant shareholder (recommendation 10).

The company follows the Finnish Corporate Governance Code (2020) for Finnish listed companies in accordance with the so-called Comply or Explain principle. The company deviates from recommendation 23 of the Corporate Governance Code:

Recommendation 23 – Remuneration and shareholding of the Board of Directors.

- This recommendation states that Board and committee remunerations can be paid in full or in part in company shares and that shareholding by Board members promotes good governance. VTT Technical Research Centre of Finland Ltd is a non-profit limited liability company owned by the state, the ownership of which is fully held by the state. Therefore, VTT Technical Research Centre of Finland Ltd does not pay Board and committee remuneration in company shares, but instead observes the remuneration policies of State ownership steering.

The Corporate Governance Code 2020 can be found online at

<https://cgfinland.fi/wp-content/uploads/sites/39/2019/11/corporate-governance-code-2020.pdf>

VTT and its subsidiaries form a group in accordance with the Finnish Limited Liability Companies Act. VTT prepares its consolidated financial statements, the parent company's financial statements and its annual report in accordance with the Finnish Accounting Act, the Finnish Accounting Ordinance and the Finnish Limited Liability Companies Act.

Internal control

Internal control and risk management aim to ensure the identification, assessment and monitoring of risks affecting the company's business activities.

All planning and reporting procedures are used as tools for internal control and risk management.

The control environment is based on the values defined in the strategy, and on defined and monitored processes and guidelines. Performance targets, from which personal targets are derived and agreed in development discussions, are set in accordance with VTT's interactive strategic and action planning procedure.

As particular operational risks to VTT's branch of industry, VTT has identified surveillance and espionage targeting information systems, especially in the cyber environment. Effective management of cyber risks requires continuous development of risk management methods both in information systems and in the physical environment. The war in Ukraine and the tensions of global politics have also impacted the completion of sanctions and export control processes and guidelines.

VTT's sustainability programme and the Code of Conduct take responsibility priorities into account. Two internal non-compliance notifications were received via the whistleblowing channel. The notifications were investigated and closed. The Ethical Committee released 16 statements concerning issues related to research ethics during the year 2022.

Salary and remuneration report

At VTT, rewarding is a key management tool deployed in support of the organisation's strategy and the achievement of its goals. Rewarding supports the achievement of excellent results, competence development and continuous improvement of operating methods. In its rewarding practices, VTT aims to be transparent, fair and equitable.

One of the most important elements of financial remuneration is our bonus scheme that allows us to flexibly reward excellent performance. The bonus scheme covers all our human resources, excluding employees eligible for the Leadership Excellence award. About 400 members of staff were rewarded for promoting excellent performance and helping VTT to reach its goals in 2022. In addition, we awarded the Customer Excellence award to 49 persons for exceptional and exemplary customer work or its development in 2022. The Leadership Excellence award covers approximately 60 VTT management members.

VTT observes the State's remuneration policy. The VTT Board adopts VTT's universal remuneration principles and policy annually on the basis of the Human Resources and Remuneration Committee's proposals. All decisions on employees' remuneration are made in accordance with VTT's approval principles (the one-over-one rule).

Benefits, remunerations and rewards

In addition to the President & CEO, the VTT Executive Leadership team includes seven members and a personnel representative.

Neither the President & CEO nor other managers have any benefits, additional pensions or option rights beyond ordinary fringe benefits (telephone benefit).

In 2022, the monthly salary of President & CEO Antti Vasara was EUR 23,700. His total wages include his monthly salary and all fringe benefits (telephone benefit). A holiday bonus is paid in addition to the monthly salary. The retirement age of the President & CEO is 65, and there are no pension arrangements in excess of the statutory level in place for him. The President & CEO has a three-month notice period for resignation. In the event of dismissal by the company, the notice period is six months. The employment contract of the President & CEO does not include any special severance pay clauses.

The salaries and rewards of the President & CEO and the management team are decided by the Board. The table below shows the salaries and other remunerations paid to the company's management team, including the President & CEO, in 2022 and Leadership Excellence rewards for 2021 paid in 2022.

	Wages and salaries*	Rewards	Total
President & CEO	295,350	61,401	356,751
Rest of the leadership team	1,086,386	169,955	1,256,341
Total	1,381,736	231,356	1,613,092

* Fringe benefits and holiday bonuses are included in wages and salaries.

Attendance fees of Board members in 2022:

	Participation						Total	
	Board	Human Resources and Remuneration Committee	Audit Committee	Monthly payments	Monthly payments in total	Meeting specific payments in total		Committee's meeting specific payments in total
Tiitinen, Pekka Tapio	12/12	4/4	4/4	1,800€	21,600€	7,800€	4,800€	34,200€
Antila Heli	12/12		4/4	800€	9,600€	7,800€	2,400€	19,800€
Kola, Jukka	11/12	4/4		800€	9,600€	7,200€	2,400€	19,200€
Leiviskä Harri	3/12		1/4	1,000€	3,000€	2,400€	600€	6,000€
Moisala Teemu	12/12	4/4		800€	9,600€	7,800€	2,400€	19,800€
Muuranto, Erno	12/12		4/4	800€	9,600€	7,800€	2,400€	19,800€
Muurinen, Kaarina	8/12		3/4	800€	9,000€	5,400€	1,800€	16,200€
Pihlman, Marja-Riitta	12/12	4/4		1,000€	12,000€	7,800€	2,400€	22,200€

Tiitinen Pekka Tapio (Chairman), Human Resources and Remuneration Committee (Chairman), Audit Committee; **Pihlman Marja-Riitta** (Vice-Chair), Human Resources and Remuneration Committee; **Antila Heli**, Audit Committee; **Muurinen Kaarina** (as of 12 April 2022), Audit Committee (Chairman as of 12 April 2022); **Kola Jukka**, Human Resources and Remuneration Committee; **Moisala Teemu**, Human Resources and Remuneration Committee; **Muuranto Erno**, Audit Committee; **Leiviskä Harri** (until 12 April 2022) Audit Committee (Chairman until 12 April 2022).

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