Tax footprint, management and control in 2018
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.

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 three wholly owned subsidiaries: VTT Memsfab Ltd, VTT Ventures Ltd and VTT International Ltd. VTT divested VTT Expert Services Ltd and Labtium Ltd to the Eurofins Scientific Group on 31 May 2018. At the end of the financial year, VTT Ventures Ltd owned 23 associated and other companies (so-called spin-off 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 did not generate any taxable income. The parent company has confirmed losses as well as statutory provisions entered in its opening balance sheet. The use of these statutory provisions against realized costs does not constitute taxable income. The statutory provisions have not been recognized 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 1.0 million in deferred tax assets. The Group’s subsidiaries also have confirmed losses, for which EUR 0.4 million in deferred tax assets were recognized in the consolidated financial statement.
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 2018 was 0.0%. The majority of taxes were paid in Finland.

In the financial year 2018, the Group’s parent company received EUR 89.3 million (previous year: EUR 87.3 million) in government grant. A total of 7 812 euro (EUR 4.5 million) of government grant was carried over from the previous year, making the total amount of government grant available EUR 89.3 million (EUR 91.9 million). VTT used EUR 87.4 million (EUR 91.8 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 16.3 million of VAT compensation was used during the financial year (previous year: EUR 18.7 million). In addition, the parent company received EUR 3.6 million in investment grants (EUR 3.7 million), of which EUR 1.5 million consisted of government investment grants (EUR 2.5 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

VTT complies with the corporate governance principles defined by the Board of Directors. 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. The company has deviated from the Corporate Governance Code (2015) as follows:
- Recommendation 3 – Not all members of the Board participated in the Annual General Meeting of 6 April 2018.
- Recommendations 18a and 18b on a Nomination Committee – Given the scope and number of issues to be prepared in relation to recommendations 18a and 18b, a Nomination Committee is not considered necessary. The Board of Directors is responsible for the tasks in question.
- Recommendation 23 – Remuneration and shareholding of the Board of Directors. This recommendation states that Board and committee remuneration can be paid in full or in part in company shares and that shareholding by Board members promotes good governance. VTT is a wholly state-owned limited liability company, the ownership of which is fully held by the State. For this reason, VTT does not pay Board and committee remuneration in shares.

The Corporate Governance Code can be found online at http://cgfinland.fi/files/2015/10/hallinnointikoodi2015finweb1.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.

All members of staff have completed a mandatory online Code of Conduct training course. Two non-compliance cases – one internal and one external – were filed during the year. The cases were investigated and then closed. The Ethical Committee released six statements concerning issues related to research ethics. A support team specialising in data protection issues was also set up.
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. VTT rewards its human resources by means of systematic training, diverse investments in staff wellbeing, financial remuneration as well as various kinds of benefits and flexible working hours.

The most important element of financial remuneration is our bonus scheme that allows us to promptly reward excellent performance. The bonus scheme covers all our human resources. Almost 500 members of staff were rewarded for promoting excellent performance and helping VTT to reach its goals in 2018. We also piloted a new reward element called Customer Excellence, which is an award given out to research teams in recognition of exceptional and exemplary customer service or efforts to promote customer service.

VTT observes the State’s remuneration policy. The VTT Board adopts VTT’s universal remuneration principles 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). Human Resources is responsible for VTT’s remuneration policy, which is reviewed once a year.

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 2018, the monthly salary of President & CEO Antti Vasara was EUR 19,500. 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 leadership team are decided by the Board. The table below shows the salaries and other remunerations paid to the company's leadership team, including the President & CEO, in 2018 and recognition rewards for 2018 paid in 2019.

<table>
<thead>
<tr>
<th>Wages and salaries</th>
<th>Rewards</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>President &amp; CEO</td>
<td>245,026</td>
<td>28,875</td>
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<tr>
<td>Rest of the leadership team</td>
<td>863,513</td>
<td>77,035</td>
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<tr>
<td>Total</td>
<td>1,108,539</td>
<td>105,910</td>
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</table>

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

### Attendance fees of Board members in 2018:

<table>
<thead>
<tr>
<th>Monthly payment</th>
<th>Monthly payments in total</th>
<th>Meeting-specific payment</th>
<th>Meeting-specific payments in total</th>
<th>Remuneration and Audit Committee’s attendance fees in total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cantell Aaro, chair</td>
<td>1,500</td>
<td>18,000</td>
<td>500</td>
<td>5,000</td>
<td>2,000</td>
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<tr>
<td>Hietanen Matti</td>
<td>850</td>
<td>10,200</td>
<td>500</td>
<td>5,500</td>
<td>4,500</td>
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<tr>
<td>Antila Heli</td>
<td>700</td>
<td>6,300</td>
<td>500</td>
<td>3,000</td>
<td>1,500</td>
</tr>
<tr>
<td>Knuutila Kari</td>
<td>700</td>
<td>8,400</td>
<td>500</td>
<td>5,500</td>
<td>2,500</td>
</tr>
<tr>
<td>Leiviskä Harri</td>
<td>850</td>
<td>10,200</td>
<td>500</td>
<td>5,500</td>
<td>2,500</td>
</tr>
<tr>
<td>Pehu-Lehtonen Kaija</td>
<td>700</td>
<td>8,400</td>
<td>500</td>
<td>5,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Pulkkinen Tulja</td>
<td>700</td>
<td>8,400</td>
<td>500</td>
<td>3,500</td>
<td>-</td>
</tr>
<tr>
<td>Lundström Petra</td>
<td>700</td>
<td>2,100</td>
<td>500</td>
<td>1,500</td>
<td>500</td>
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<tr>
<td>Total</td>
<td>72,000</td>
<td>34,500</td>
<td>15,500</td>
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<td>122,000</td>
</tr>
</tbody>
</table>

Petra Lundström served on the Board until March of 2018 and Heli Antila from April of 2018 onwards.
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