

VTT

Tax footprint, management and control in 2020

beyond the obvious



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 20 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 2.1 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 recognized in the consolidated financial statement.

M€	VTT Group		Parent company		Subsidiaries	
	2020	2019	2020	2019	2020	2019
Taxes borne						
Income taxes	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on property	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0
Taxes collected						
Payroll taxes	28.7	28.0	28.5	27.9	0.2	0.1
Social security contributions	1.5	0.9	1.5	0.8	0.0	0.0
Value-added taxes	9.1	7.8	9.0	8.0	0.0	-0.2
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
	39.3	36.7	39.0	36.8	0.3	-0.1
Total taxes	39.3	36.7	39.0	36.8	0.3	-0.1
%-share	100%	100%	99%	100%	1%	0%

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 2020 was 0.0%. The majority of taxes were paid in Finland.

In the financial year 2020, the Group's parent company received EUR 107.7 million (previous year: EUR 94.4 million) in government grant. No government grant was carried over from the previous year (EUR 1.9 million) making the total amount of government grant available EUR 107.7 million (EUR 96.3 million). VTT used EUR 103.4 million (EUR 96.3 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 19.0 million of VAT compensation was used during the financial year (previous year: EUR 17.8 million). In addition, the parent company received EUR 2.1 million of government special grant for the decommissioning of FIR1 research reactor and restoration of Otakaari 3 research facility, and EUR 0.1 million for building a quantum computer.

The parent company received EUR 6.2 million in investment grants (EUR 5.5 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

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 has deviated from the Corporate Governance Code (2020) as follows:

- Recommendation 2 – issues to be addressed at the general meeting are agreed directly with the State owner (Ministry of Economic Affairs and Employment)
- Recommendation 3 – The members of the Board did not participate in the Annual General Meeting of 2020.
- Recommendation 23 – Remuneration and shareholding of the Board of Directors. 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. In matters related to rewards reporting, VTT complies with the principles 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. This risk has become increasingly emphasised as remote working has expanded over the past year. Effective management of cyber risks requires continuous development of risk management methods both in information systems and in the physical environment.

Forepersons were given training in the processing of sanctions for non-compliance. Two attempts to abuse the VTT brand were reported as criminal offences. Two internal non-compliance notifications were received via the whistleblowing channel. Both cases have been investigated and closed. An investigation proper was completed on an alleged violation of the Responsible Conduct of Research (RCR) in accordance with the relevant process. The Ethical Committee released 16 statements concerning issues related to research ethics.

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.

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. About 310 members of staff were rewarded for promoting excellent performance and helping VTT to reach its goals in 2020. As new element of rewarding, we introduced the Leadership Excellence award for rewarding VTT management and the Customer Excellence award for rewarding research teams for exceptional and exemplary customer work or its development.

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 2020, the monthly salary of President & CEO Antti Vasara was EUR 21,000. 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 2020 and Leadership Excellence rewards for 2020 paid in 2021.

	Wages and salaries*	Rewards	Total
President & CEO	267,106	29,135	296,241
Rest of the leadership team	957,221	95,829	1,053,050
Total	1,224,326	124,964	1,349,050

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

Attendance fees of Board members in 2020:

	Participation: Board	Participation: committee	Monthly payments in total	Meeting-specific payments in total	Committee's meeting-specific payments in total	Total
Tiitinen Pekka	11/11	6/6	15,600	5,500	3,000	24,100
Hietanen Matti	11/11	6/6	10,800	5,500	2,500	18,800
Antila Heli	11/11	4/6	8,400	5,500	2,000	15,900
Leiviskä Harri	11/11	4/4	10,200	5,500	2,000	17,700
Pihlman Marja-Riitta	11/11	4/4	10,200	5,500	2,000	17,700
Kola Jukka	8/8	3/3	6,300	4,000	1,500	11,800
Moisala Teemu	8/8	3/3	6,300	4,000	1,500	11,800
Walls-Anna Mari	1/3	0/1	2,100	500		2,600
Pehu-Lehtonen Kaija	2/3	1/1	2,100	1,000	500	3,600

Tiitinen Pekka Tapio (Chairman as of 30 March 2020), Human Resources and Remuneration Committee (Chairman as of 30 March 2020); **Antila Heli**, Human Resources and Remuneration Committee; **Hietanen Matti**, Human Resources and Remuneration Committee; **Leiviskä Harri**, Audit Committee (Chairman); **Pihlman Marja-Riitta** (Vice-Chair), Audit Committee; **Kola Jukka** (as of 30 March 2020), Audit Committee (as of 30 March 2020); **Moisala Teemu** (as of 30 March 2020), Audit Committee (as of 30 March 2020); **Pehu-Lehtonen Kaija** (until 29 March 2020), Audit Committee (until 29 March 2020); **Walls Anna-Mari** (until 29 March 2020), Audit Committee (until 29 March 2020).

VTT Technical Research Centre of Finland Ltd



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