

Tax footprint, management and control in 2023

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 Ltd and VTT Holding Ltd. At the end of the financial year, VTT Ventures Ltd owned 14 associated and other companies (so-called spin-off companies) and VTT Holding Oy 12 other companies. VTT Ventures Ltd's associated companies are not included in VTT Group's tax footprint reporting. VTT's board of directors decided on the 19 December 2022 to discontinue VTT SenseWay Ltd's business operations and the company is in liquidation. 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 2023 was EUR 0.2 million. The parent company has 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 0.2 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	
	2023	2022	2023	2022	2023	2022
Taxes borne						
Income taxes	0.0	0.7	0.0	0.7	0.0	0.0
Taxes on property	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.7	0.0	0.7	0.0	0.0
Taxes collected						
Payroll taxes	32.8	30.1	32.8	29.8	0.0	0.2
Social security contributions	2.0	1.6	2.0	1.6	0.0	0.0
Value-added taxes	9.0	8.3	9.0	8.3	0.0	0.0
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
	43.8	39.9	43.8	39.7	0.0	0.3
Total taxes	43.8	40.6	43.8	40.4	0.0	0.3
%-share	100%	100%	100%	99%	0%	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 2023 was 5%. The majority of taxes were paid in Finland.

In the financial year 2023, the Group's parent company received EUR 97.0 million (previous year: EUR 101.6 million) in government grant. A total of EUR 12.2 million (previous year: EUR 13.0 million) of government grant was carried over from the previous year making the total amount of government grant available EUR 109.2 million (EUR 114.6 million). VTT used EUR 108.9 million (EUR 102.4 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 21.8 million of VAT compensation was used during the financial year (previous year: EUR 18.6 million). In addition, the parent company received EUR 6.5 million of government special grants for building a quantum computer, development of cyber security and building a quantum encryption network. Of this, EUR 4.5 million was investment grants.

The parent company received EUR 8.8 million in investment grants (EUR 5.4 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.

Corporate Governance

In all decision-making and administration, the company complies with Finnish laws and regulations as well as the company's Articles of Association. The tasks of VTT's and its subsidiaries' various bodies are governed by the Limited Liability Companies Act and the laws of Finland. VTT complies with the corporate governance principles defined by its Board of Directors, which are based on the Finnish Companies Act and the principles of state ownership steering.

VTT also follows the Finnish Corporate Governance Code (2020) in accordance with the state's ownership steering principles. VTT complies with the Finnish Corporate Governance Code for listed companies in accordance with the so-called Comply or Explain principle. The company deviates from recommendation 23 of the Corporate Governance Code – Payment of remuneration to the Board of Directors in shares:

- 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 remains 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://www.cgfinland.fi/en/corporate-governance-code/>

VTT and its subsidiaries form a group in accordance with the Finnish Limited Liabilities Companies Act. VTT prepares its consolidated financial statements, the parent company's financial statements and the report of the Board of Directors 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, monitoring and management of risks affecting the company's business activities, with adequate measures. 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 internal 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. Projects are implemented and reported according to project plans. Project-specific risks are assessed before projects are started.

As operational risks to VTT's branch of industry, VTT has identified threats related to information systems and 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 other tensions caused by the geopolitical situation in the world have also impacted the continuous development and tightening of sanctions and export control processes and guidelines.

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 employees, excluding employees eligible for the Leadership Excellence award. In 2023, we rewarded about 400 members of staff for promoting excellent performance, impact and sustainability in helping VTT to reach its goals. In addition, a total of 72 people were awarded with the Customer Excellence Award in 2023. With rewards, we support the customer-oriented culture and working method at VTT and encourage sustainable customer solutions. The Leadership Excellence award covers almost 60 VTT management members.

VTT observes the State's ownership steering policy with regard to remuneration. 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 (one-over-one rule).

Management benefits, remuneration 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 and bicycle benefit).

In 2023, the monthly salary of President & CEO Antti Vasara was EUR 24,530. 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.

	Wages and salaries*	Rewards	Total
President & CEO	309,712	51,825	361,537
Rest of the leadership team	1,139,617	182,665	1,322,282
Total	1,449,329	234,490	1,683,819

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

Attendance fees of Board members in 2023:

	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	13/13	4/4	4/4	2,000€	23,400€	7,800€	4,800€	36,000€
Antila, Heli	3/3		1/1	800€	2,400€	1,800€	600€	4,800€
Kola, Jukka	13/13	2/2	3/3	900€	10,500€	7,800€	3,000€	21,300€
Moisala, Teemu	11/13	4/4		900€	10,500€	6,600€	2,400€	19,500€
Muuranto, Erno	12/13	2/2	1/1	900€	10,500€	7,200€	1,800€	19,500€
Muurinen, Kaarina	13/13		4/4	900€	11,100€	7,800€	2,400€	21,300€
Ervasti, Outi	10/10		3/3	900€	8,100€	6,000€	1,800€	15,900€
Hämäläinen, Sonja	10/10	2/2		1,100€	9,900€	6,000€	1,200€	17,100€
Pihlman, Marja-Riitta	3/3	2/2		1,000€	3,000€	1,800€	1,200€	6,000€

Tiitinen Pekka Tapio (Chairperson), Human Resources and Remuneration Committee (Chairperson), Audit Committee; **Hämäläinen Sonja** (from 31 March 2023, Vice Chairperson), Human Resources and Remuneration Committee; **Ervasti Outi** (from 31 March 2023), Audit Committee; **Muurinen Kaarina**, Audit Committee (Chairperson); **Kola Jukka**, Human Resources and Remuneration Committee 13 April 2023, Audit Committee from 13 April 2023; **Moisala Teemu**, Human Resources and Remuneration Committee; **Muuranto Erno**, Audit Committee from 13 April 2023, Human Resources and Remuneration Committee from 13 April 2023; **Antila Heli** (until 31 March 2023), Audit Committee; **Pihlman Marja-Riitta** (until 31 March 2023, Vice-Chairperson), Human Resources and Remuneration Committee.

VTT Technical Research Centre of Finland Ltd



www.vttresearch.com