



# Tax footprint, management and control 2017



## Tax footprint

A company's tax footprint describes the amount of tax revenue it generates for society, and how tax is paid between different countries. VTT reports taxes paid, and entered in the accounts, as part of its tax footprint. Transparent reporting of its tax footprint forms a key part of VTT's corporate responsibility activities. In each case, VTT complies with local legislation on the payment, collection, book-entry and reporting of taxes.

High quality and timely management of tax returns and other statutory obligations form a key part of VTT's management of its tax and related affairs. VTT's tax footprint summary covers those taxes and tax-like charges which VTT has a statutory obligation to pay or collect.

At the end of the fiscal year, VTT Group consisted of four wholly-owned subsidiaries in addition to the parent company: VTT Expert Services Ltd, VTT Memsfab Ltd, VTT Ventures Ltd and VTT International Ltd. In addition, VTT Expert Services Ltd owns Labtium Ltd. The operations of VTT Brasil LTDA ended in 2016, and the run-down of the company was concluded in early 2017. At the end of the period, VTT Ventures Ltd owned 23 associated and other companies (so-called spin-offs). VTT Ventures Ltd's associated companies are not included in VTT Group's tax footprint reporting. VTT has no subsidiaries in low-tax countries.

Like other limited liability companies, the parent company and its subsidiaries are subject to income tax and value added tax on the basis of 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 Finnish state shall compensate VTT for costs associated with

VAT paid on activities other than those incurred through purchases and office rental related to business activities pursued on a commercial basis as defined in Section 1, paragraph 1, clause 1 of the Value Added Tax Act (1501/1993). The compensation is adjusted annually on the basis of the most recent accumulation of value added tax for the Company.

The parent company did not generate any taxable income. The parent company has confirmed losses, as well as statutory reserves entered in its opening balance sheet; statutory reserves used to pay realised

costs do not constitute taxable income in this respect. These statutory reserves have not been recognised as deferred tax assets in the parent company's financial statements. However, deferred tax assets have been taken into account in the consolidated financial statements in accordance with the prudence principle, by recording EUR 1.3 million in deferred tax assets. The Group's subsidiaries also have confirmed losses subject to taxation, for which EUR 0.2 million in deferred tax assets were recognised in the consolidated financial statement.

	VTT Group		Parent company		Subsidiaries	
	2017	2016	2017	2016	2017	2016
<b>Taxes paid</b>						
Income taxes	0.0	0.0	0.0	0.0	0.0	0.0
Property taxes	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0
<b>Recognised taxes</b>						
Payroll taxes	31.5	34.3	28.5	31.1	3.0	3.1
Social security contributions	1.3	2.7	1.2	2.4	0.1	0.4
Value-added taxes	13.2	11.0	9.9	7.8	3.4	3.2
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
	46.1	48.0	39.5	41.3	6.5	6.7
<b>Grand total</b>	<b>46.1</b>	48.0	<b>39.5</b>	41.3	<b>6.5</b>	6.7
% share	100%	100%	86%	86%	14%	14%

Table 1. Relevant taxes and charges by category in 2017.

The relevant taxes and charges are listed by tax category in Table 1. The Group's parent company is reported separately and the subsidiaries as a whole. The Group's effective income tax rate in 2017 was 0.0%. Most taxes were paid in Finland.

In the 2017 financial year, the Group's parent company received EUR 87.3 million (EUR 91.8 million) in government grant. A total of EUR 4.5 million (EUR 6.0 million) of government grant was carried over from the previous year, increasing the total amount of government grant available to EUR 91.9 million (EUR 93.3 million). VTT used EUR 91.8 million (EUR 93.3 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 costs associated with VAT paid on activities other than those incurred through purchases and office rental related to business activities pursued on a commercial basis. EUR 18.7 million of VAT compensation was used during the financial year (EUR 16.0 million). In addition, the parent company received EUR 3.7 million in investment grants (EUR 5.7 million), of which EUR 2.5 million consisted of government investment grants (EUR 1.0 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 21 April 2017.

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 at: <http://cgfinland.fi/files/2015/10/hallinnointikoodi2015fin-web1.pdf>.

VTT and its subsidiaries form a group in accordance with the 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 and regulations, and the Finnish Limited Liability Companies Act.

## Internal control

Internal control and risk management aims 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 VTT's interactive strategic and annual planning.

The Code of Conduct document was approved by the Board, and a mandatory online training course for all employees was launched in support of its implementation. Two business areas held research ethics seminars, and one had organised an equivalent seminar earlier. Two internal reports were received through the whistleblowing channel, and the investigation of one of them is still ongoing. The Ethical Committee made five statements on issues related to research ethics.

## Audit

The company's auditor must be an auditing body approved by the Central Chamber of Commerce. The auditor's term expires at the close of the subsequent Annual General Meeting. On 21 April 2017, the Annual General Meeting decided that Authorized Public Accountants KPMG Oy Ab (Business ID: 1805485-9) shall act as the company's auditor with

APA Jorma Nurkkala as the principal responsible auditor. A more detailed description of the activities of the Board, internal control and risk management is available on our website ([www.vttresearch.com/vttreview2017](http://www.vttresearch.com/vttreview2017)).