

› **FINANCIAL
STATEMENTS
2016**

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for life

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The original financial statements were drafted in Dutch. This document is a translation of the original. In the case of any discrepancies between the English and the Dutch text, the latter will prevail.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

(in EUR x 1,000)

after profit appropriation

			31-12-2016	31-12-2015
Fixed assets				
Intangible assets	1	7,049		6,560
Property, plant and equipment	2	179,833		181,823
Financial assets	3	9,633		9,288
			196,515	197,671
Current assets				
Inventories		656		780
Receivables	4	74,235		72,899
Cash and cash equivalents	5	149,110		134,895
			224,001	208,574
Total			420,516	406,245
Equity				
General reserve	6	113,128		93,099
Statutory reserve	7	14,386		12,007
Special reserves	8	63,754		72,061
			191,268	177,167
Minority interests			56	1,399
Investment grant equalisation account	9		24,803	28,011
Provisions	10		8,111	19,392
Long-term liabilities	11		16,807	5,618
Current liabilities	12		179,471	174,658
Total			420,516	406,245

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in EUR x 1,000)

			2016	2015
Revenue	13	530,604	518,381	
Other operating income	14	14,718	16,337	
Total operating income			545,322	534,718
Direct project costs	15	-76,042	-63,276	
Personnel expenses	16	-320,615	-333,981	
Amortisation expenses		-3,921	-3,750	
Depreciation expenses	17	-23,362	-23,026	
Impairment of property, plant and equipment	18	-	-3,000	
Other operating expenses	19	-99,597	-103,063	
Total operating expenses			-523,537	-530,096
Operating result			21,785	4,622
Net finance cost	20		1,772	-2,122
Result from ordinary activities before tax			23,557	2,500
Corporation tax	21		125	-468
Share of result from participating interests	22		-10,323	511
Result after tax			13,359	2,543
Minority interests			797	4
Net result			14,156	2,547
Profit appropriation				
Net result			14,156	2,547
Additions to:				
- statutory reserve		-2,379	-1,536	
- special reserve for construction of new defence buildings		-3,576	-3,044	
			-5,955	-4,580
Utilisation of:				
- special reserve for defence operating risks		2,500	-	
- special reserve for construction of new defence buildings		9,383	6,026	
			11,883	6,026
Result after movements in special reserves			20,084	3,993
Movements in general reserve			-20,084	-3,993
			-	-

CONSOLIDATED CASH FLOW STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(in EUR x 1,000)

CONSOLIDATED CASH FLOW STATEMENT

		2016	2015
Operating profit	21,785	4,622	
Amortisation and depreciation	27,283	26,776	
Impairment of property, plant and equipment	-	3,000	
Proceeds on sale of fixed assets	-	-1,811	
Changes in provisions	-11,281	7,549	
Changes in working capital excl. cash and cash equivalents	16,172	6,436	
Cash flow from business operations	53,959	46,572	
Interest received	460	697	
Interest paid	-950	-1,037	
Dividends received	556	377	
Corporation tax paid	-507	-468	
Cash flow from operating activities		53,518	46,141
Investments in intangible assets	-4,418	-5,504	
Investments in property, plant and equipment	-34,634	-28,114	
Investments in financial assets	-419	-1,393	
Disposals of intangible assets	8	3	
Disposals of property, plant and equipment	64	3,852	
Changes in minority interests	-546	703	
Sale of participating interests and repayments received	-844	1,315	
Cash flow from investing activities		-40,789	-29,138
Investment grants received	-	5,301	
Take-up of long-term debt	2,639	-	
Repayment of borrowings	-1,153	-345	
Cash flow from financing activities		1,486	4,956
Cash flow for financial year		14,215	21,959
Cash and cash equivalents as at 1 January		134,895	113,287
Cash flow for financial year		14,215	21,959
Discontinued consolidation		-	-869
Exchange rate differences		-	518
Cash and cash equivalents as at 31 December		149,110	134,895

STATEMENT OF COMPREHENSIVE INCOME

	2016	2015
Consolidated net result after tax	14,156	2,547
Foreign currency translation reserve	-55	39
Comprehensive income	14,101	2,586

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

ACCOUNTING POLICIES

1.1 GENERAL

TNO connects people and knowledge to create innovations which will strengthen the competitive ability of industry and promote the sustainable well-being of society.

Name: Nederlandse Organisatie voor Toegepaste Natuurwetenschappelijk Onderzoek TNO.

Legal form: public corporate body with statutory task.

Chamber of Commerce no.: 27376655.

TNO has registered offices in Delft, the Netherlands.

Reporting period

The financial statements are prepared on the basis of a reporting period of one calendar year.

Basis of preparation

The financial statements have been prepared in accordance with the TNO Guidelines for Financial Reporting as issued by the Minister of Education, Culture and Science (OCW). These guidelines implement the statutory provisions of Part 9, Book 2, of the Dutch Civil Code. A supplementary order issued by the Minister exempts TNO from the provisions of Dutch Accounting Standard no. 271, which relates to employee remuneration and benefits. The accounting policies applied are based on the historical costs convention. For the Standards for Remuneration Act [Wet

normering bezoldiging topfunctionarissen in the public and semi-public sector (WNT)], TNO applies the WNT Policy Regulations, which set the standards for the preparation of these financial statements.

Comparative figures

Where necessary, the figures for 2015 have been reclassified in order make them comparable to current year's presentation. These financial statements have been prepared on the basis of the going concern assumption.

1.2 ACCOUNTING POLICIES

Unless stated otherwise, assets and liabilities are recognised at face value.

An asset is disclosed in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is expected to result in an outflow from the entity of resources and the amount of the obligation can be measured with sufficient reliability.

If a transaction results in a transfer of all or nearly all future economic benefits or when all or nearly risks relating to assets or liabilities transfer to a third party, the asset or liability is no longer included in the balance sheet. Assets and liabilities are not included in the balance sheet if economic benefits are not probable or cannot be measured with sufficient reliability.

Income is recognised in the income statement when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

Expenses are allocated to the period to which they relate.

The financial statements are presented in euros, the company's functional currency. All financial information in euros has been rounded to the nearest thousand.

1.3 CONSOLIDATION PRINCIPLES

The consolidated financial statements include the financial data of the company, its group companies and other companies over which the company has control. Group companies are participating interests in which the company has a direct or indirect controlling interest. In assessing whether controlling interest exists, financial instruments containing potential voting rights that are currently exercisable are taken into account. Group companies exclusively acquired with the view to resale are exempted from consolidation if on acquisition there is already the intention to dispose of the interest, disposal within one year is likely and other relevant indicators are met. These interests are recognised under current assets, as

securities (held for sale only). New participating interests are included in the consolidated financial statements from the date that control commences.

The consolidated financial statements are prepared in accordance with uniform group accounting policies.

When sold, participating interests are included in the consolidated financial statements until the date that control ceases.

In preparing the consolidated financial statements, intra-group debts, receivables and transactions are eliminated. The group companies are consolidated in full with the minority interest presented within group equity separately from the parent's equity.

Where losses incurred by a company in which TNO has a minority interest exceed the value of the minority interest in the equity of the consolidated enterprise, the difference and any further losses are allocated in full to the majority shareholder. The share in the result from minority interests is shown separately as the final entry in the consolidated income statement, as a deduction from group profit.

A list of the consolidated group companies and non-consolidated participating interests is included in the notes to the company financial statements.

1.4 PRINCIPLES FOR THE TRANSLATION OF FOREIGN CURRENCY

Transactions in foreign currencies

Transactions denominated in foreign currency are translated into the relevant functional currency of the group companies at the exchange rate applying on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the balance sheet date into the functional currency at the exchange rate applying on that date. Translation gains and losses are taken to the income statement.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into euros at exchange rates applying on the reporting date. Income and expenses of foreign operations are translated into euros at the average exchange rate over the reporting period, which approximates recognition at the exchange rate applying on the transaction date.

Translation gains and losses are taken to the reserve for translation differences. If a foreign operation is fully or partially sold, the respective amount is transferred from the reserve for translation differences to the income statement.

1.5 FINANCIAL INSTRUMENTS

Financial instruments include contract and other receivables, cash items, loans and other financing commitments, trade payables and other amounts payable.

Financial instruments also include derivative financial instruments embedded in contracts. Derivatives embedded in contracts are separated from the host contract and accounted for as a separate financial instrument if a separate instrument with the same terms and conditions as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value with changes in fair value recognised through profit and loss.

Financial instruments, including the derivative financial instruments that are separated from the host contract are initially stated at fair value, including discount or premium and directly attributable transaction costs. However, if financial instruments are subsequently measured at fair value through profit and loss, then directly attributable transaction costs are directly recognised in the profit and loss account at the initial recognition.

Financial instruments embedded in contracts that are not accounted for separately from the host contract are recognised in accordance with the host contract.

After initial recognition, financial instruments are valued in the manner described below.

Loans granted and other receivables, borrowings, accounts payable and other payables

These financial instruments are carried at amortised cost on the basis of the effective interest method. The effect of discounting short-term receivables and payables which are not subject to specific interest is generally insignificant. These items are therefore recognised at face value as a reflection of amortised cost.

Where necessary, the value of loans granted and other receivables is adjusted for impairment losses.

Deferred tax assets are carried at their present value.

Long-term liabilities are carried at face value.

Derivatives

Derivatives are carried after their initial recognition at the lower of cost or market value, except if the cost model for hedge accounting is applied. TNO makes limited use of forward exchange transactions in order to hedge exchange rate risks arising from buying and selling transactions. If forward exchange contracts are concluded to hedge monetary assets and liabilities in foreign currencies, cost hedge accounting is applied. This is done to ensure that the

gains or losses arising from the translation of the monetary items recognised in the income statement are offset by the changes in the value of forward exchange contracts arising from the difference between their forward and spot rates as at the reporting date. The difference between the spot rate agreed at the inception of the forward exchange contract and the forward rate is amortised via the income statement over the term of the contract.

One TNO group company uses interest rate swaps to hedge interest rate risks arising from long-term loans. The cost model for hedge accounting is applied if interest rate swaps are used to hedge interest rate risks. Hedge accounting is applied to ensure that the net finance cost in the income statement is not subject to exchange rate fluctuations. The recognised interest expenses therefore represent the amount of interest paid to financiers adjusted by the gains or losses arising from the rent swaps.

If the cost model for hedge accounting is applied, initial measurement is made at fair value. No revaluation of the derivative instrument takes place as long as the derivative hedges the specific risk of a future transaction that is expected to take place. As soon as the expected future transaction leads to recognition in the income statement, then the profit or loss that is associated with the derivative is recognised in the income statement. If the hedged position of an expected future

transaction leads to the recognition in the balance sheet of a non-financial asset, then the cost of the asset is adjusted by the hedge results that have not yet been recognised in the income statement.

A percentage loss greater than the amount which is hedged by the derivative instrument is recognised directly in the income statement at the lower of cost or market value.

If a derivative expires or is sold, the hedging relationship is terminated. The accumulated profit or loss that has not yet been recognised in the income statement prior to that time must then be included as a deferral in the balance sheet until the hedged transactions take place. If the transactions are no longer expected to take place, then the accumulated profit or loss is transferred to the income statement.

TNO documents its hedging relationships in specific hedging documentation and regularly checks the effectiveness of the hedging relationships by establishing whether the hedge is effective or that there is no over-hedging.

1.6 INTANGIBLE ASSETS

Goodwill represents the excess of the cost of the acquisition over the company's interest in the net realisable value of the assets acquired and the liabilities assumed at the transfer date, less cumulative amortisation and impairment

losses. Goodwill is amortised over the estimated useful life of the participating interest, which in principle is limited to five years.

The other intangible assets relate to development costs. These are capitalised in so far as incurred in respect of potentially profitable projects. The development of an intangible fixed asset is considered commercially profitable if the completion of the asset is technically feasible, the company has the intention of completing the asset and then of using or selling it (including the availability of adequate technical, financial and other resources to achieve this), the company has the ability to use or sell the asset, it is probable that the asset will generate future economic benefits and the costs during the development phase can be determined reliably. Development costs are stated at production cost, less accumulated amortisation and impairment losses. These costs mainly comprise the salary costs of the relevant employees and the cost of external expertise (cost of external research and development), licences and software programs. Upon termination of the development phase, the capitalised costs are amortised over their expected useful life, which in principle is limited to five years. Amortisation takes place on a straight-line basis.

Capitalisation takes place if it can reasonably be expected that the costs will be covered by future income.

A legal reserve is formed for the capitalised development costs that have not yet been amortised.

1.7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at the price of acquisition, or, if self-constructed, the price of manufacturing, less accumulated depreciation based on the asset's expected useful life and impairment losses.

Depreciation is computed as a percentage of the price of acquisition on a straight-line basis over the estimated useful lives of each item. Land, assets in production and prepayments on assets are not depreciated.

Depreciation commences once an asset is available for its intended use and terminated when the asset is taken out of service or sold.

1.8 FINANCIAL ASSETS

Participating interests where significant influence is exercised over the business and financial policy are valued according to the equity method on the basis of net asset value. The net asset value is calculated on the basis of the company's accounting policies. Participating interests with a negative net asset value are valued at nil. If the company guarantees the debts of the relevant participating interest, a provision is recognised. This provision is recognised primarily to the charge of the receivables on the respective participating

interest and for the remainder is presented under provisions accordingly to the company's share in the participating interest's debts or the amount of the estimated payments by the company on behalf of the participating interest.

Participating interests where no significant influence is exercised are stated at the lower of cost or realisable value.

Loans to non-consolidated participating interest are included at amortised cost using the effective interest method, less impairment losses.

Dividends are accounted for in the period in which they are declared. Interest income is recognised in the income statement on an accrual basis, using the effective interest rate method. Any profit or loss is recognised under financial income or expenses.

1.9 IMPAIRMENT

For fixed assets with a long useful life, an assessment is made as at each balance sheet date as to whether there are indications that these assets are subject to impairment. The recoverable value of an asset in use is calculated as the difference between its carrying amount and the present value of the estimated future cash flows that the asset is expected to generate.

If the carrying amount of an asset is higher than the present value of the future cash flows, an impairment loss is recorded for the difference between the carrying amount and the recoverable value.

1.10 INVENTORIES

Raw materials and consumables are carried at the lower of purchase cost and net realizable value. The valuation of inventories includes possible impairments that arise on the balance sheet date.

1.11 WORK IN PROGRESS

Included in the valuation of work in progress are the costs which directly relate to the specific project (for example, personnel costs for employees whose activities relate directly to the project and costs of materials used in construction), the costs which are attributable to contract activity in general and can be allocated to the project as well as other costs chargeable to the customer under the terms of the project. Expenses related to project costs which will lead to activities to be performed after the balance sheet date are recognised as assets if it is probable that they will lead to revenue in a subsequent period. Where necessary, a provision is formed for expected losses on work in progress. Advance payments are deducted from work in progress.

1.12 RECEIVABLES

The accounting policies applied for the valuation of receivables are described under the heading 'Financial instruments'.

1.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are shown at face value. Adjustments are made where the cash and cash equivalents are not at the free disposal of the company. Cash and cash equivalents denominated in foreign currency are translated at the balance sheet date into the functional currency at the exchange rate applying on that date, as described in the section on foreign currency translation.

1.14 EQUITY

Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under equity.

Financial instruments that are designated as a financial liability by virtue of the economic reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the income statement as financial income or expense.

Statutory reserves

The statutory reserve relates to intangible assets and non-distributable profits of participating interests of group companies that are recognised at their net asset value.

Special reserves

In accordance with Section 22 of the TNO Act and Section 4 and 5 of TNO Guidelines for Financial Reporting, special reserves may be formed to allow for future expenditure or costs, or to cover economic

or technical risks. In the appropriation of profit and loss, utilisations may only be made in accordance with the special purpose of the reserve.

The special reserve for 'Civil operating risks' is intended to cover both economic and technical risks. In the appropriation of annual profit, TNO's board of management designates a percentage of both government and third-party funding and projects to the reserve until the maximum amount of the reserve has been reached. A maximum amount of 9.1 million euros was agreed with the government at the time.

The special reserve for 'Defence operating risks' is based on specific agreements with the Ministry of Defence and is intended to cover risks associated with to the completion of defence-related projects. A maximum of 2.5 million euros has been agreed with the Ministry of Defence. TNO's board of management consults with the TNO Council for Defence Research and TNO's supervisory board to determine the amount to be added to the reserve each year when appropriating the profit of the Defence, Safety and Security theme. Additions may be made annually until the maximum reserve of 2.5 million euros, as agreed with the Ministry of Defence, has been reached.

As resolved by the Council for Defence Research, the special reserve for defence operating risks reserve has been released

to the general reserve as from 2016. The special reserve for construction of new defence buildings related to defence research has been formed to cover future investments in renovation and/or new construction projects. Additions to and utilisations from this reserve are made annually in the appropriation of profit and loss on the basis of specific agreements with the Council for Defence Research.

1.15 MINORITY INTERESTS

Minority interests are measured at the net asset value of the acquirer's share in consolidated participating interests according to the company's accounting policies.

1.16 INVESTMENT GRANT EQUALIZATION ACCOUNT

Funding provided by the government or third parties in respect of TNO's investment in an asset are recognised as a liability in the balance sheet and recognised in profit and loss on a systematic basis over the useful life of the asset.

1.17 PROVISIONS

A provision is recognised if the following applies:

- the company has a legal or constructive obligation, arising from a past event; and
- the amount can be estimated reliably;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are stated at the nominal value of the expenditures that are expected to be required to settle the liabilities and losses of the expenditure, or the present value of the expenditure.

A provision for post-employment benefits is established to cover current benefits and agreed future benefits payable to former and current employees of the TNO Organisation under to the contractual terms and conditions of their employment. The portion of the provision relating to current pension benefits is based on actuarial calculations with a discount rate of four per cent (4%).

A provision for claims, disputes and lawsuits is established when it is expected that the company will be sentenced in legal proceedings.

The provision for restructuring costs is established to cover the costs that are associated with current or impending restructuring, in whole or in part.

The provision for redundancies is established to cover the expected costs associated with the planned termination of employment contracts with employees, other than in the framework of restructuring.

A provision for periodic major maintenance is recognised to spread the costs relating to the upkeep of buildings which owned by the TNO Organization and its group

companies, based on a long-term maintenance plan.

Other provisions are established in particular to cover expected costs associated with onerous tenancy agreements.

The main estimates relate to the provision for post-employment benefits, the provision for redundancies and the other provisions.

1.18 EMPLOYEE BENEFITS/PENSIONS

TNO has a number of pension schemes, of which the most significant is a defined-benefit scheme administered by Stichting Pensioenfonds TNO.

An order issued by the Minister of Education, Culture and Science stipulates that Dutch Accounting Standard 271 ('Employee benefits') does not apply to the TNO Organisation. The main principle is that the pension charge to be recognised for the reporting period should be equal to the pension contributions payable to the pension fund over the period. In so far as the payable contributions have not yet been paid as at balance sheet date, a liability is recognised. If the contributions already paid exceed the payable contributions as at balance sheet date, a deferred receivable is recognised to account for any repayment by the fund or settlement with contributions payable in the future.

In addition, a provision is included as at the balance sheet date for existing additional commitments to the fund and the employees, provided that it is likely that there will be an outflow of funds for the settlement of the commitments and it is possible to reliably estimate the amount of the commitments. The existence or non-existence of additional commitments is assessed on the basis of the administration agreement concluded with the fund, the pension agreement with the staff and other (explicit or implicit) commitments to staff.

The liability is stated at the best estimate of the present value of the anticipated costs of settling the commitments as at the balance sheet date.

For any surplus at the pension fund as at balance sheet date, a receivable is recognised if the company has the power to withdraw this surplus, if it is likely that the surplus will flow to the company and if the receivable can be reliably determined.

1.19 CURRENT LIABILITIES

The valuation of current liabilities is explained in the section on financial instruments.

1.20 REVENUE RECOGNITION

Revenue is defined as the total of:

- contract revenue;
- government funding.

Contract revenue comprises the amounts invoiced for service rendered, less any value added tax, and changes in the value of work in progress. Because there is a regular flow of projects throughout the year, and most are completed within a year, profits derived from work in progress are recognised upon the completion of the project.

The government provides funding to support the demand-led 'programme' research for the benefit of the Top Sectors and in the societal transition themes. These funds are recognised as revenue in proportion to the stage of completion of the transaction. Direct project costs are taken to mean the cost of materials (including outsourced or subcontracted work) which are directly allocated to a project.

1.21 GOVERNMENT GRANTS

Government grants are initially recognised in the balance sheet as deferred income when there is reasonable assurance that they will be received and the company will comply with the conditions associated with the grant. Grants that compensate the TNO Organisation for expenses incurred are recognised in the profit and loss on a systematic basis in the same period in which the expenses are recognised.

The accounting policies which apply to grants to compensate for capital expenditure are explained in 'Investment grant equalization account'.

1.22 SHARE IN THE RESULT OF PARTICIPATING INTERESTS

The share in the result of participating interests consists of the share of the TNO Organisation in the results of these participating interests, determined on the basis of the accounting principles of the group. Results on transactions, where the transfer of assets and liabilities between the group and the non-consolidated participating interests and mutually between non-consolidated participating interests themselves, are not recognised when they can be deemed as not realised.

The results of participating interests acquired or sold during the financial year are stated in the group result from the date of acquisition or until the date of sale, respectively.

1.23 FINANCIAL INCOME AND EXPENSES

Interest income is recognised in the period to which it related, taking account of the effective interest rate of the asset. Interest paid and similar expenses are recognised in the period to which they relate.

1.24 CORPORATION TAX/DEFERRED TAX ASSETS

As from 2016, TNO is liable for corporation tax in full in accordance with the Corporation Tax Act [*Wet op de Vennootschapsbelasting*].

Upon commencement of the corporation tax liability as at 1 January 2016, the

opening tax balance sheet was prepared on the basis of the applicable tax accounting policies.

TNO Companies Holding B.V. has a 100% interest in TNO Bedrijven B.V., which together with all subsidiaries registered in the Netherlands is also subject to corporation tax. Subsidiaries registered in other tax jurisdictions are subject to the relevant taxation regime.

Corporation tax comprises the current and deferred corporate income tax payable and deductible for the reporting period. Corporation tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

If the carrying values of assets and liabilities for financial reporting purposes differ from their values for tax purposes (tax base), this results in temporary differences. A provision for deferred tax liabilities is recognised for taxable temporary differences.

For deductible temporary differences, unused loss carry-forwards and unused tax credits, a deferred tax asset is recognised,

but only in so far as it is probable that taxable profits will be available in the future for offset or compensation.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are stated at present value.

1.25 CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. Cash flows in foreign currency are translated into euros using the weighted average exchange rates at the dates of the transactions.

1.26 DETERMINATION OF FAIR VALUE

Various accounting policies and notes to the financial statements require an assessment of the fair value of assets and liabilities, both financial and non-financial. For accounting and information purposes, fair value is calculated using the following methods.

Trade and other receivables

The fair value of contract and other receivables is estimated according to the present value of the future cash flows.

Derivatives

The fair value of currency forward contracts and interest rate swaps is based on quoted market prices, where available. If no quoted market price is available, the

fair value is estimated by discounting the expected cash flows to their present value using current interest rates to which a risk premium is applied.

Non-derivative financial liabilities

The fair value of non-derivative financial liabilities (borrowings) is determined for information purposes only and is calculated using the present value of future payments of principal and interest, discounted at the market interest rate at the reporting date.

Further information about the criteria for the determination of fair value is given in the notes to the specific asset or liability, where applicable.

1.27 USE OF ESTIMATES

The preparation of the financial statements requires the management to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. Actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences.

The estimates mainly relate to fixed assets, work in progress, deferred tax assets and provisions (including for claims and onerous contracts).

1.28 RELATED PARTIES

Transactions with related parties occur when a relationship exists between the company, its participating interests and their directors and key management personnel.

In the course of its normal operations, TNO provides and receives services to and from various related parties in which TNO has an interest of 50% or less. These transactions are generally conducted at arm's length, i.e. under terms and conditions comparable to those applying to third parties with whom no relationship exists.

NOTES TO THE CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

(in EUR x 1,000)

1 INTANGIBLE ASSETS

Movements in intangible assets in 2016:

	Goodwill	Software	Total
Balance as at 31-12-2015			
Purchase price	453	17,514	17,967
Accumulated amortisation and impairment	-288	-11,119	-11,407
Carrying amount	165	6,395	6,560
Changes in carrying amount			
Investments	400	4,018	4,418
Disposals	-	-8	-8
Amortisation	-323	-3,598	-3,921
	77	412	489
Balance as at 31-12-2016			
Purchase price	853	21,047	21,900
Accumulated amortisation and impairment	-611	-14,240	-14,851
Carrying amount	242	6,807	7,049

2 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in 2016:

	Land and buildings	Plant and equipment	Other operating assets	Fittings and fixtures	Total
Balance as at 31-12-2015					
Purchase price	204,799	161,592	172,484	12,637	551,512
Accumulated depreciation and impairment	-128,361	-108,499	-133,273	-7,966	-378,099
Assets under construction and development	1,925	5,009	1,476	-	8,410
Carrying amount	78,363	58,102	40,687	4,671	181,823
Changes in carrying amount					
Investments	30	993	15,978	511	17,512
Disposals	-189	-132	36	-7	-292
Discontinued consolidations	-2,975	-	-5,474	-	-8,449
Depreciation	-3,297	-7,813	-14,394	-1,066	-26,570
Assets under construction and development, capitalised in financial year	-	-965	-2,009	-	-2,974
Assets under construction, discontinued consolidations	-	-	-1,313	-	-1,313
Assets under construction, new investments 2016	2,673	8,657	8,766	-	20,096
	-3,758	740	1,590	-562	-1,990
Balance as at 31-12-2016					
Purchase price	199,767	159,487	173,223	12,887	545,364
Accumulated depreciation and impairment	-129,760	-113,346	-137,866	-8,778	-389,750
Assets under construction and development	4,598	12,701	6,920	-	24,219
Carrying amount	74,605	58,842	42,277	4,109	179,833

The depreciation charge shown in the income statement includes the release of investment funds from the investment grant equalization account.

The carrying amount for property, plant and equipment as at 31 December 2016 includes land and buildings and plant and equipment with a total value of EUR 25.5 million (2015: EUR 31.7 million) of which TNO is solely the beneficial owner.

Depreciation rates in numbers of years

	2016	2015
Land	nil	nil
Buildings	40	40
Plant and equipment	15	15
Renovations	4-15	4-15
Computer hardware	3-5	3-5
Other operating assets	5	5
Fittings and fixtures	10	10

3 FINANCIAL ASSETS

	Non-consolidated participating interests		Other loans	Total
	Share in equity	Loans		
Balance as at 31-12-2015	8,905	-	383	9,288
Changes:				
Investments and loans granted	46	258	115	419
Discontinued consolidations and repayments	-	-	-164	-164
Changes in value	-231	-	-	-231
Share in result of participating interests	877	-	-	877
Dividends	-556	-	-	-556
Balance as at 31-12-2016	9,041	258	334	9,633

A list of all direct and indirect participating interests is included in the notes to the company financial statements.

4 RECEIVABLES

	31-12-2016	31-12-2015
Contract receivables	56,291	58,841
Accounts receivable from participating interests	58	1,144
Deferred tax assets	5,690	-
Other receivables	6,498	7,930
Prepayments and accrued income	5,698	4,984
Total	74,235	72,899

Receivables totalling EUR 3.6 million (2015: EUR 2.0 million) fall due in more than one year. All prepayments and accrued income fall due within one year.

Deferred tax assets

	2016
Tax value of property, plant and equipment as at 1 January	5,538
Tax value of property, plant and equipment, change in 2016	152
Balance as at 31-12-2016	5,690

Deferred tax assets are stated at their present value based on an interest rate of 2.4% to 2.8% and a term of 15 to 24 years. The deferred tax assets have a face value of EUR 8.1 million. Of the deferred tax assets, EUR 2.9 million has an age greater than one year.

5 CASH AND CASH EQUIVALENTS

The value of cash and cash equivalents at year-end 2016 exceed the special reserve for construction of new defence buildings (see point 8). Cash and cash equivalents include EUR 69.0 million in defence funds. EUR 148.1 million of the cash and cash equivalents is at the free disposal of the company.

6 GENERAL RESERVE

	2016	2015
Balance as at 1 January	93,099	89,067
Foreign currency translation reserve	-55	39
Profit appropriation	20,084	3,993
Balance as at 31 December	113,128	93,099

EUR 69.9 million of the general reserve concerns defence reserves.

7 STATUTORY RESERVE

	2016	2015
Balance as at 1 January	12,007	10,471
Change	2,379	1,536
Balance as at 31 December	14,386	12,007

The statutory reserve relates to the intangible assets and non-distributable profits from participating interests at the group companies.

8 SPECIAL RESERVES

	Balance as at 31-12-2015	Withdrawn in 2016	Added in 2016	Balance as at 31-12-2016
Civil operating risks	9,075	-	-	9,075
Defence operating risks	2,500	2,500	-	-
Construction of new defence buildings	60,486	9,383	3,576	54,679
Total	72,061	11,883	3,576	63,754

9 INVESTMENT GRANTS EQUALISATION ACCOUNT

	2016	2015
Balance as at 1 January	28,011	26,900
Net funds granted in respect of property, plant and equipment	-	5,301
Released to profit or loss	-3,208	-4,190
Balance as at 31 December	24,803	28,011

10 PROVISIONS

	Balance as at 31-12-2015	Withdrawn in 2016	Added in 2016	Released in 2016	Balance as at 31-12-2016
Post-employment benefits	691	87	-	16	588
Claims, disputes and lawsuits	800	-	-	-	800
Restructuring costs	9,838	8,732	127	1,087	146
Redundancies	2,770	2,189	1,608	256	1,933
Loans to participating interests	168	168	-	-	-
Major maintenance	406	2,250	2,574	-	730
Other	4,719	157	3,191	3,839	3,914
Total	19,392	13,583	7,500	5,198	8,111

About EUR 3.8 million in provisions is of a long-term nature (2015: EUR 6.4 million).

Further information about the provisions can be found in the accounting policies section, as included in the Notes to the consolidated financial statements 2016.

11 LONG-TERM LIABILITIES

	31-12-2016	31-12-2015
Bank loans	13,150	4,329
Overdrafts	1,044	954
Other borrowings	2,613	335
Total	16,807	5,618

EUR 8.3 million of the long-term liabilities has a term between one and five years. The remainder (EUR 7.2 million) has a term longer than five years.

In 2015, the Netherlands Enterprise Agency (RVO.nl) granted an Innovation Loan to LDI Systems B.V. in respect of the Laser Direct Imaging for PCB Manufacturing project. This will offset 45% of the project costs incurred during the period from 28 October 2014 to 31 December 2015 (maximum of EUR 1,364,903. Provided certain conditions are met, the loan can be converted into a non-repayable grant. The company has provided security in the form of a deed of pledge on the equipment and intangible assets purchased using the loan, while the shareholders act as guarantors. The loan is to be repaid in six quarterly instalments commencing on 1 January 2018, with accrued interest payable as from 1 July 2019. The annual interest rate is 7%. The full amount of the loan, EUR 686,011, is recognised as a long-term liability as at the balance sheet date. At the end of 2016, LDI Systems B.V. received a letter from the Netherlands Enterprise Agency in connection with the termination of activities (for a lack of market perspective, the commercial proposition had proven infeasible). Each year, the Netherlands Enterprise Agency will decide whether to revise or continue the exemption from repayment. The Netherlands Enterprise Agency will take its final decision in mid-2020. Nevertheless, the shareholders see potential for the business, which is why the loan sum remains recognised in the balance sheet.

In 2015, LDI Systems B.V. received a loan from supplier and development partner Hittech Multin B.V. It is agreed that part of the development expenses incurred by Hittech Multin B.V. fall under a loan agreement rather than having to be paid directly by LDI Systems B.V. Repayment is expected up to the end of 2018 and is based on systems sold. The annual interest rate is 10%. The full amount of the loan and interest, EUR 358,152, was waived at the end of 2016 in the composition with creditors. The loan will be negotiated if LDI Systems B.V. generates income in the future. As LDI Systems B.V. believes that there are still prospects for the business, the loan has been maintained. The long-term portion amounted to EUR 358,152 as at 31 December 2016.

Holland Metrology N.V. holds a twenty-year straight-line mortgage loan (from ABN AMRO Bank) for EUR 13 million, taken out to finance the new construction and conversion project in Delft. Holland Metrology N.V. repaid a total of EUR 8.4 million in the 2005-2016 period. The long-term portion amounted to EUR 3.9 million as at 31 December 2016. The interest rate is 4.08% - 5.2% (swap interest rate plus surcharge).

Holland Metrology N.V. holds a nine-year straight-line mortgage loan (from ABN AMRO Bank) for EUR 8.4 million, taken out to refinance the loan previously granted to finance the new Euroloop building in Europoort. The interest rate is 6.77% (swap interest rate plus surcharge). The quarterly repayment amounts to EUR 0.15 million, with repayment required by 1 July 2025 of the amount of the loan

outstanding at that time. The long-term portion amounted to EUR 7.95 million as at 31 December 2016. In 2017, EUR 0.6 million must be repaid.

The bank has stipulated that Holland Metrology N.V. may only distribute profits and repay the loans granted by TNO Deelnemingen B.V. (which are subordinated to the bank) under certain conditions (e.g. solvency requirement of at least 30% and debt/EBITDA and debt service capacity ratios and sufficient free cash flow). Its capital base must also equal at least 25%-30% at year-end (2017-2019). The loan provided by TNO Deelnemingen is included in the capital base.

In addition to the solvency requirement mentioned above, security on the loan is required in the form of:

- A first charge on the property at Thijsseweg 11 in Delft and building in Dordrecht;
- Deed of pledge on intellectual property rights, office equipment, machinery and equipment (except that of VSL B.V.), receivables and inventories.

In 2015, Ducares B.V. entered into a financial leasing agreement with ING Lease Nederland B.V. to finance the purchase of a piece of laboratory machinery. The principal sum is EUR 160,000 and the interest rate is 2.83%. Repayments are to be made in 36 equal monthly instalments of EUR 4,641 (including interest and annuity), commencing in March 2015. The long-term portion amounted to EUR 9,249 as at 31 December 2016, with the short-term portion amounting to EUR 54,590.

In 2010, Vitens N.V. granted an annuity loan for EUR 461,796 with a period of ten years to Ducares B.V. to finance the construction and fitting-out of laboratories. The interest rate is equivalent to 6%. During the period from 2010 to 2015, Ducares B.V. made repayments totalling EUR 231,674. The remainder of EUR 230,122 was repaid in 2016.

Since 2016, TNO has at its disposal EUR 2,549,000 in grants from the Ministry of Economic Affairs as agreed with the Netherlands Enterprise Agency. EUR 2.0 million of the long-term liabilities falls due between one and five years. The rest of the long-term liabilities at EUR 0.5 million has a term of more than five years. No security has been furnished. The total of the long-term liabilities with a remaining term of more than five years amounts to EUR 519,582. The long-term liability is interest-free.

12 CURRENT LIABILITIES

	31-12-2016	31-12-2015
Bank loans	-	9,983
Accounts payable	18,288	14,599
Taxes and social security contributions	26,066	18,522
Pensions	202	40
Holiday pay	9,134	9,292
Untaken days of leave	13,532	13,511
Other liabilities	33,428	39,592
Accruals and deferred income	40,386	33,284
Work in progress	38,435	35,835
Total	179,471	174,658

The other liabilities largely relate to costs recognised in 2016 for which payment falls due in 2017. These current liabilities do not bear interest.

Accruals and deferred income largely relate to advance payments in respect of specific research projects as well as accrued government funding. Of the total, EUR 11.3 million has a term of more than one year.

	31-12-2016	31-12-2015
Work in progress		
Accumulated costs less provisions for losses and risks	321,222	319,538
Less: accumulated progress billings	-359,657	-355,373
Total work in progress	-38,435	-35,835
Value of work performed > 0	90,524	82,371
Value of work performed < 0	-128,959	-118,206
Total work in progress	-38,435	-35,835

FINANCIAL INSTRUMENTS

General

In the course of its regular business operations, TNO uses a wide range of financial instruments which expose the organisation to market and/or credit risks. The financial instruments are recognised in the balance sheet, together with currency forward contracts and interest rate swaps to cover future transactions, cash flows and interest rate risks. TNO does not trade in these financial derivatives. It applies procedures and guidelines intended to restrict the credit risks of each market or counterparty. Should a counterparty default on payments which are due to TNO, the losses thus incurred are limited to the market value of the relevant instruments. The contract value or notional principal amount of the financial instruments is no more than an indication of the degree to which they are used rather than the amount of the credit or market risk.

Interest rate risk

The interest rate risk is limited to any fluctuations in the market value of loans taken up and granted. It is preferable for all loans to have a fixed interest rate throughout their term. Where this is not the case, the policy of TNO is to use derivative financial instruments to manage interim interest rate fluctuations. Loans are held until maturity.

Credit risk

TNO is exposed to credit risks associated with transactions where losses could occur if a counterparty were to default on payment. The level of risk is limited due to the sheer number and diversity of debtors. There is only a concentration of credit risk in terms of geographic distribution, since most clients and contracting parties are registered and active in the Netherlands.

Market value

The market value of most financial instruments recognised in the balance sheet, including loans granted, contract and other

receivables, cash and cash equivalents and accounts payable and other liabilities, is broadly equivalent to their book value.

The market value of other financial instruments recognised in the balance sheet can be presented as follows:

The market value of amounts owed by participating interests cannot be reliably determined. For further information, see point 3 in the Notes.

Long-term loans are stated at face value. The fair value of the loans may differ from their face value, but again the difference cannot be reliably determined.

Outstanding forward contracts in US dollars (USD) have a market value of EUR 9.7 million and a contract value of EUR 9.4 million (2015: EUR 9.1 and 8.9 million, respectively). The outstanding forward contracts in pounds sterling (GBP) have a market value of EUR 0.4 million and a contract value of EUR 0.4 million (2015: EUR 0.4 and 0.4 million, respectively).

To cover the interest rate risk associated with the long-term mortgage loans for EUR 13 million, Holland Metrology N.V. has taken out interest rate swaps totalling the same amount and with terms ranging from 1 December 2018 (two contracts totalling EUR 4.6 million) to 1 July 2025 (one contract for EUR 8.4 million). The interest rate swap for a total of EUR 4.6 million has a fixed coupon rate of 3.73% – 4.85% and the interest rate swap for EUR 8.4 million has a fixed coupon rate of 4.37%, all at the three-month Euribor. The principal amount of the interest rate swaps is virtually synchronous with the agreed loan repayment schedule related to these contracts. At year-end 2016, the market value of the three contracts was EUR -2.6 million (2015: EUR -2.9 million).

Off-balance sheet assets and liabilities

As at 31 December 2016, the total operating lease liabilities over the period from 2017 to 2021 inclusive is about EUR 4.7 million (2015: EUR 5.7 million), EUR 2.1 million of which about falls due in 2017 (2016: EUR 2.4 million) and EUR 2.6 million (2015: EUR 3.3 million) between one and five years.

Rental commitments amount to EUR 73.4 million at year-end (2015: EUR 95.5 million), EUR 12.3 million of which (2015: EUR 13.3 million) falls due within one year, 39.7 EUR million (2015: EUR 46.7 million) between one and five years and EUR 21.4 million (2015: EUR 35.5 million) in more than five years.

As at 31 December 2016, investment commitments in respect of property, plant and equipment amount to EUR 2.1 million (2015: EUR 2.2 million).

Bank guarantees issued amount to EUR 3.4 million (2015: EUR 5.4 million). The total credit facility amounts to EUR 15.4 million (2015: EUR 15.4 million) and the bank guarantee facility to EUR 11.0 million (2015: EUR 11.0 million).

Other securities and conditions for the total credit facility:

- negative pledge/pari passu and cross-default pledge
- positive/negative mortgage pledge in respect of properties in Eindhoven
- joint and several liability agreement (CJMO), security type RC plus one party.

The total in guarantees at year-end 2016 was EUR 4.7 million (2015: EUR 2.4 million). TNO is currently a litigant in various legal proceedings in connection with its regular business activities. The liabilities arising from these proceedings are not expected to be of material significance to the organisation's financial position.

Provisions have been established for all disputes and proceedings based on the face value of expenditure likely to arise in settlement of liabilities and losses.

NOTES TO THE CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in EUR x 1,000)

13 REVENUE

	2016	2015
Contract revenue	354,347	350,447
Government funding	176,257	167,934
Total	530,604	518,381

Revenue includes movements in work in progress amounting to EUR -2.6 million (2015: EUR -26.9 million).

CONTRACTS

Contract revenue by category:

	2016	2015
Domestic		
Government	88,314	85,832
Industry	107,364	102,742
Total domestic	195,678	188,574
International		
International organisations	35,225	35,949
Other	123,444	125,924
Total international	158,669	161,873
Total	354,347	350,447

14 OTHER OPERATING INCOME

	2016	2015
Profit or loss on sale of property, plant and equipment	-228	1,811
Other income	14,946	14,526
Total	14,718	16,337

Other income includes income from licences and patents, non-project-related income and costs charged to external parties.

CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

15 DIRECT PROJECT COSTS

	2016	2015
Accommodation and energy	838	168
Materials	17,762	14,327
Utilisation of operating assets	1,968	3,870
General administrative expenses	6,678	8,020
Subcontracted work	44,949	31,831
Other expenses	3,847	5,060
Total	76,042	63,276

16 PERSONNEL EXPENSES

	2016	2015
Wages and salaries	226,308	227,968
Pension cost	25,662	26,021
Other social security charges	29,762	30,145
Other personnel expenses	49,493	43,563
Changes in liability for untaken days of leave	22	-1,203
Utilisation and release of provisions:		
- post-employment benefits	-103	-175
- redundancies	-2,445	-697
- restructuring costs	-9,819	-5,346
	318,880	320,276
Additions to provisions		
- restructuring costs	127	10,683
- redundancies	1,608	3,022
Total	320,615	333,981

The average number of FTEs in 2016 was 3,295, 57.9 of whom were employed outside the Netherlands (2015: 3,438, 55.9 of whom outside the Netherlands). Remuneration paid to TNO's board of management, including pension contributions, amounts to EUR 0.8 million (2015: EUR 0.8 million). Remuneration paid to the members of TNO's supervisory board amounted to EUR 0.1 million (2015: EUR 0.1 million).

As at 31 December 2016, the funding level of Stichting Pensioenfonds TNO (average rolling 12-month market value of investments expressed as a percentage of the provision for pension liabilities calculated according to the principles of the Dutch central bank) was 106.1%, subject to confirmation. This takes account of the Dutch Actuarial Association's new mortality tables. The total contribution for 2017 is fixed at 18.4%. This includes the fixed contribution loading of 0.3% (2016: 18.3% and 0.3%, respectively).

17 DEPRECIATION

	2016	2015
Depreciation of:		
- buildings	3,297	3,927
- plant and equipment	7,813	8,686
- other operating assets	14,394	13,493
- fixtures and fittings	1,066	1,110
	26,570	27,216
Release from:		
- investment grant equalisation account	-3,208	-4,190
Total	23,362	23,026

18 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

2015: The impairment of EUR 3.0 million relates to the write-down of property, plant and equipment at one of TNO's participating interests.

19 OTHER OPERATING EXPENSES

	2016	2015
Accommodation	41,587	40,974
Cost of materials	4,932	4,207
Utilisation of operating assets	14,157	13,865
General administrative expenses	23,958	27,098
Subcontracted work	10,058	9,228
Changes in provisions	-932	835
Other expenses	4,667	5,613
Contributions paid	1,170	1,243
Total	99,597	103,063

20 NET FINANCE COST

	2016	2015
Interest income	460	697
Interest expense	-950	-1,037
Value adjustment to loans (hedging)	2,300	-2,300
Exchange rate differences	-38	518
Total	1,772	-2,122

In 2016, the negative market value of EUR 2.3 million was reversed in connection with the extension of the loan in satisfaction of the loan covenant.

21 CORPORATION TAX

	2016	2015
Current tax		
Financial year	5,413	468
Deferred tax asset		
Temporary differences in the financial year	-5,538	-
Total	-125	468

On the inception of liability for tax on profit, the opening tax balance was prepared on the basis of the applicable tax accounting policies. A deferred tax assets was recognised for the difference between the valuation of the tax balance sheet (tax book value) and the commercial balance sheet (commercial book value). The commercial value is lower than the tax value, resulting in a deferred tax asset of EUR 5.5 million. The reporting rules prescribe that this amount of tax must initially be recognised in the income statement.

22 SHARE OF RESULT FROM PARTICIPATING INTERESTS

	2016	2015
Participating interests:		
- Non-consolidated participating interests	1,442	239
- Sale of TB participating interests	-11,765	272
Total	-10,323	511

23 AUDITOR'S FEE

The following fee paid to KPMG Accountants N.V. is charged to the TNO Organisation, its subsidiaries and other consolidated companies in accordance with the provisions of Article 2:382a of the Dutch Civil Code.

	2016	2015
Audit of the financial statements	497	442
Other auditing activities	370	425
Advisory services	11	-
Total	878	867

24 SUBSEQUENT EVENTS

Sale of TNO Bedrijven B.V. majority interest

On 16 December, TNO and First Dutch Companies B.V. agreed the sale of 55% of the shares in TNO Bedrijven B.V. by TNO Companies Holdings B.V. following a multi-phase bidding procedure with several parties. The contract sets 1 July 2016 as that the effective transfer date, as the final bidding was based on this balance sheet date.

Actual transfer will take place in 2017 after approval of the ACM. This approval was obtained on 9 March 2017; transfer is expected to take place on 31 March 2017. The sale of the interest will benefit the result of operations for 2017.

The portfolio comprises 27 young and fast-growing technology companies with more than 1,100 employees (including minority interests) in the high tech, life sciences and energy sectors. This strategic partnership will further boost the financial and commercial strength of TNO Bedrijven B. V., which will continue as First Dutch Innovations.

As a key minority shareholder, TNO remains closely involved in the new company.

Acquisition of TASS International Powertrain B.V.

On 25 January 2016, TNO Affiliates Holding B.V. acquired all shares in TASS International Powertrain B.V. from TASS International B.V.

Wageningen Research and TNO pool food research

On 30 September 2016, the cabinet gave its consent, as proposed by Minister Kamp of Economic Affairs, to combine the research by Wageningen Research and TNO into food technology, nutrition and healthy eating in Wageningen.

The relevant research staff of TNO will thus transfer to Wageningen Research (former DLO). The new centre (known for now as the Dutch Food Institute) will start operations on 1 January 2018 under the administrative and legal authority of Wageningen Research. This will result in the creation of one big, authoritative food research centre at the national and international forefront.

TNO sees this amalgamation as an important step in the realisation of research to develop future-proof food systems with sufficient, safe and healthy, varied and sustainably produced food that is available to and affordable for everyone.

This will be fleshed out by all stakeholders in the time to come subject to final approval by the Council of Wageningen University & Research and the board of management of TNO as well as approval of both advisory councils and a positive recommendation from both Works Councils.

TNO and ECN to combine energy research

As proposed by Minister Kamp of Economic Affairs, on 30 September 2016 the cabinet gave its consent for TNO and ECN to join forces in the area of renewable energy. This will see the establishment of a new Dutch Energy Research Centre under the administrative and legal responsibility of TNO. The new research centre will open on 1 January 2018, giving way to a leading international research centre that can accelerate the transition to renewable energy. The new centre is to become a one-stop shop in the energy sector and a partner of universities, other applied centres of expertise, NGOs and the business community.

This will be fleshed out in the time to come by all parties involved; it remains subject to the final approval of TNO's board of management and the board of ECN as well as approval of both advisory councils and a positive recommendation by both Works Councils.

Sale of property

TNO plans to sell property at the locations in Eindhoven and Leiden in 2017. Expectations are that the sale of the property will benefit the profit for 2017.

BALANCE SHEET OF THE TNO ORGANISATION AS AT 31 DECEMBER 2016

(in EUR x 1,000)

after profit appropriation

		31-12-2016	31-12-2015
Fixed assets			
Property, plant and equipment	1	152,520	144,036
Financial assets	2	38,811	44,374
		191,331	188,410
Current assets			
Inventories		583	653
Receivables	3	57,832	57,411
Cash and cash equivalents		129,700	115,416
		188,115	173,480
Total		379,446	361,890
Equity			
General reserve		113,128	93,099
Statutory reserve		14,386	12,007
Special reserves		63,754	72,061
		191,268	177,167
Investment grant equalisation account		24,803	28,011
Provisions	4	7,493	18,496
Long-term liabilities	5	2,549	–
Current liabilities	6	153,333	138,216
Total		379,446	361,890

INCOME STATEMENT OF THE TNO ORGANISATION FOR THE YEAR ENDED 31 DECEMBER 2016

(in EUR x 1,000)

		2016	2015
Revenue from contracts (domestic and international)		179,971	176,333
Revenue from government contracts		74,449	71,863
Market revenue		254,420	248,196
Government funding		176,257	167,934
Revenue	7	430,677	416,130
Other operating income		22,505	24,813
Total operating income		453,182	440,943
Direct project costs		-70,508	-56,382
Personnel expenses	8	-266,885	-278,768
Depreciation expense		-16,693	-17,017
Other operating expenses		-81,394	-85,446
Operating expenses		-435,480	-437,613
Operating result		17,702	3,330
Net finance cost	9	307	703
Result from ordinary operations before tax		18,009	4,033
Corporation tax	10	630	-
Share of result from participating interests		-4,483	-1,486
Net result		14,156	2,547

CASH FLOW STATEMENT OF THE TNO ORGANISATION FOR THE YEAR ENDED 31 DECEMBER 2016

(in EUR x 1,000)

CASH FLOW STATEMENT OF THE TNO ORGANISATION

		2016	2015
Operating result	17,702		3,330
Depreciation	16,693		17,017
Changes in provisions	-11,003		8,128
Changes in working capital, excluding cash and cash equivalents	15,396		7,235
Cash flow from business operations	38,788		35,710
Interest received	315		727
Interest paid	-8		-11
Cash flow from operating activities		39,095	36,426
Investments in intangible assets	-28,758		-23,057
Investments in property, plant and equipment	-562		-228
Disposals of property, plant and equipment	373		1,910
Sale of participating interests and repayments received	1,587		929
Cash flow from investing activities		-27,360	-20,446
Take-up of long-term debt	2,549		-
Investment grants received	-		5,302
Cash flow from financing activities		2,549	5,302
Cash flow for financial year		14,284	21,282
Cash and cash equivalents as at 1 January		115,416	94,147
Cash flow for financial year		14,284	21,282
Exchange rate differences		-	-13
Cash and cash equivalents as at 31 December		129,700	115,416

ACCOUNTING POLICIES

General

The accounting policies are given in the notes to the consolidated financial statements. This also goes for the other notes in so far as they are not given below.

NOTES TO THE BALANCE SHEET OF THE TNO ORGANISATION AS AT 31 DECEMBER 2016

(in EUR x 1,000)

1 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in 2016:

	Land and buildings	Plant and equipment	Other operating assets	Fittings and fixtures	Total
Balance as at 31-12-2015					
Purchase price	180,855	160,996	81,209	10,370	433,430
Accumulated depreciation and impairment	-120,123	-107,992	-61,204	-6,682	-296,001
Assets under construction and development	1,925	3,206	1,476	-	6,607
Carrying amount	62,657	56,210	21,481	3,688	144,036
Changes in carrying amount					
Investments	-	965	10,856	331	12,152
Disposals	-189	-132	-46	-6	-373
Depreciation	-2,734	-7,801	-8,542	-824	-19,901
Assets under construction and development, capitalised in financial year	-	-965	-841	-	-1,806
Assets under construction, new investments 2016	2,673	8,657	7,082	-	18,412
	-250	724	8,509	-499	8,484
Balance as at 31-12-2016					
Purchase price	179,393	158,863	90,134	10,641	439,031
Accumulated depreciation and impairment	-121,584	-112,827	-67,861	-7,452	-309,724
Assets under construction and development	4,598	10,898	7,717	-	23,213
Carrying amount	62,407	56,934	29,990	3,189	152,520

The depreciation charge shown in the income statement includes the release of investment funds from the investment grant equalization account. The carrying amount for property, plant and equipment as at 31 December 2016 includes land and buildings and plant and equipment with a total value of EUR 25.5 million (2015: EUR 31.7 million) of which TNO is solely the beneficial owner.

2 FINANCIAL ASSETS

	Group companies	Participating interests	Loans	Total
	Share in equity	Share in equity		
Balance as at 31-12-2015	38,782		5,592	44,374
Changes:				
Investments and loans granted	46	-	33,273	33,319
Disposals and repayments	-32,758	-	-1,052	-33,810
Share in result of participating interests	-5,017	-	-	-5,017
Foreign currency translation reserve	-55	-	-	-55
Balance as at 31-12-2016	998	-	37,813	38,811

In December 2016, TNO transferred to TNO Companies Holding B.V. the shares in TNO Bedrijven B.V. at their book value of EUR 32.8 million as at 31 December 2016. At the same time, TNO granted TNO Companies Holding B.V. a loan equivalent to the value of the shares in TNO Bedrijven B.V. The interest equals the 12-month Euribor + 0.5% surcharge. At least EUR 1 million of the loan must be repaid each year. EUR 35.5 million of the loans has a term of more than one year (2015: EUR 4.5 million).

3 RECEIVABLES

	31-12-2016	31-12-2015
Contract receivables	40,000	43,507
Accounts receivable from group companies	5,826	5,565
Accounts receivable from participating interests	58	1,144
Deferred tax assets	5,690	-
Other receivables	560	2,211
Prepayments and accrued income	5,698	4,984
Total	57,832	57,411

Receivables totalling EUR 3.4 million (2015: EUR 2.0 million) fall due in more than one year. All prepayments and accrued income fall due within one year.

Deferred tax assets

	2016
Tax value of property, plant and equipment as at 1 January	5,538
Tax value of property, plant and equipment, change in 2016	152
Balance as at 31-12-2016	5,690

Deferred tax assets are stated at their present value based on an interest rate of 2.4% to 2.8% and a term of 15 to 24 years. The deferred tax assets have a face value of EUR 8.1 million. Of the deferred tax assets, EUR 2.9 million has an age greater than one year.

4 PROVISIONS

	Balance as at 31-12-2015	Provisions used in 2016	Provisions made in 2016	Provisions reversed in 2016	Balance as at 31-12-2016
Post-employment benefits	691	87	-	16	588
Claims, disputes and lawsuits	800	-	-	-	800
Restructuring costs	9,729	8,727	-	1,002	-
Redundancies	2,770	2,189	1,608	256	1,933
Major maintenance	406	2,250	2,574	-	730
Other	4,100	157	3,134	3,635	3,442
Total	18,496	13,410	7,316	4,909	7,493

About EUR 3.5 million in provisions is of a long-term nature (2015: EUR 5.7 million).

5 LONG-TERM LIABILITIES

	31-12-2016	31-12-2015
Other borrowings	2,549	-
Total	2,549	-

Since 2016, TNO has at its disposal grants from the Ministry of Economic Affairs as agreed with the Netherlands Enterprise Agency. No security has been furnished. The long-term liabilities are interest-free. EUR 2.0 million of the long-term liabilities has a term of between one and five years. The rest of the long-term liabilities at EUR 0.5 million has a term of more than five years.

6 CURRENT LIABILITIES

	31-12-2016	31-12-2015
Accounts payable	13,833	12,029
Amounts owed to group companies	441	2,399
Taxes and social security contributions	23,474	14,892
Holiday pay	6,792	6,959
Untaken days of leave	13,532	13,511
Other liabilities	21,068	23,303
Accruals and deferred income	40,386	33,284
Work in progress	33,807	31,839
Total	153,333	138,216

The other liabilities largely relate to costs recognised in 2016 for which payment falls due in 2017. These current liabilities do not bear interest. Accruals and deferred income largely relate to advance payments in respect of specific research projects as well as accrued government funding. EUR 10 million of the accruals and deferred has a term of more than one year.

WORK IN PROGRESS

	31-12-2016	31-12-2015
Accumulated costs less provisions for losses and risks	293,726	291,534
Less: accumulated progress billings	-327,533	-323,373
Total work in progress	-33,807	-31,839
Value of work performed > 0	83,296	76,406
Value of work performed < 0	-117,103	-108,245
Total work in progress	-33,807	-31,839

NOTES TO THE INCOME STATEMENT OF THE TNO ORGANISATION FOR THE YEAR ENDED 31 DECEMBER 2016

(in EUR x 1,000)

7 REVENUE

	2016	2015
Domestic private sector	86,458	79,865
International organisations	31,467	33,312
Other international	62,046	63,156
Total international	93,513	96,468
Government	74,449	71,863
Market revenue	254,420	248,196
Government grants	176,257	167,934
Total	430,677	416,130

8 PERSONNEL EXPENSES

	2016	2015
Wages and salaries	186,113	184,653
Pension cost	21,190	21,463
Other social security charges	23,885	23,971
Other personnel expenses	46,345	42,225
Changes in liability for untaken days of leave	21	-1,204
Changes in provisions	-10,669	7,660
Total	266,885	278,768

The average number of FTEs in 2016 was 2,618, 11 of whom were employed outside the Netherlands (2015: 2,689, 7 of whom outside the Netherlands).

9 NET FINANCE COST

	2016	2015
Interest income	315	727
Interest expense	-8	-11
Exchange rate differences	-	-13
Total	307	703

10 CORPORATION TAX

	2016
Current tax	
Financial year	4,908
Deferred tax asset	
Temporary differences in the financial year	-5,538
Total	-630

On the inception of liability for tax on profit, the opening tax balance was prepared on the basis of the applicable tax accounting policies. A deferred tax assets was recognised for the difference between the valuation of the tax balance sheet (tax book value) and the commercial balance sheet (commercial book value). The commercial value is lower than the tax value, resulting in a deferred tax asset of EUR 5.5 million. The reporting rules prescribe that this amount of tax must initially be recognised in the income statement.

Reconciliation of the standard Dutch tax rate and the effective tax rate:

	2016
Standard tax rate in the Netherlands	25.0%
Tax non-deductible items	2.3%
Effective current tax rate	27.3%

TNO ORGANISATION COMPLIANCE STATEMENT 2016: STANDARDS FOR REMUNERATION ACT (WNT)

The Standards for Remuneration Act [*Wet normering bezoldiging topfunctionarissen in the public and semi-public sector (WNT)*] came into force on 1 January 2013. It restricts the remuneration payable to senior government officials of public and semi-public organisations. This compliance statement has been prepared in accordance with the following regulation applicable to TNO: general WNT maximum.

The maximum remuneration in 2016 for the TNO Organisation is €179,000. This is determined on the basis of the Reduction of

Maximum Remuneration (WNT) Act [*Wet verlaging bezoldigingsmaximum WNT*], which took force on 1 January 2016. The applicable WNT maximum shown per person or per position is in proportion to the rate (and in the case of senior officials, the length) of service, whereby an appointment can never exceed 1.0 FTE (full-time equivalent).

An exception is formed by the WNT maximum for members of the supervisory board: this is 15% of the maximum remuneration for the chairman and 10% for the other members.

REMUNERATION OF SENIOR OFFICIALS Senior officials in managerial positions

Amounts in euros	P. de Krom	Prof. J.T.F. Keurentjes	F. Marring	W. Nagtegaal
Position(s)	Member of board of management (Chair)	Member of board of management	Member of board of management	Member of board of management
Length of service in 2016	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Rate (in FTE)	1.0	1.0	1.0	1.0
Former senior official?	no	no	no	no
Actual or deemed employer-employee relationship?	yes	yes	yes	yes
Remuneration				
Pay	166,024.42	213,701.76	210,279.03	113,428.21
Taxable expense allowances	0.00	0.00	0.00	0.00
Deferred pay	10,576.92	10,576.92	10,576.92	10,576.92
Total remuneration	176,601.34	224,278.68	220,855.95	124,005.13
Applicable WNT maximum	179,000.00	179,000.00	179,000.00	179,000.00
Reason for payment exceeding maximum (where applicable: see notes)		1	1	

1. Appointments prior to 1 January 2015 fall under the transitional arrangements in accordance with Section. 7.3 in conjunction with Section 7.3a of the Standards for Remuneration Act, where the legal maximum is to be phased out starting four years after 1 January 2015, i.e. the effective date of the Reduction of Maximum Remuneration (WNT) Act, therefore on 1 January 2019.

Senior officials in supervisory positions

Amounts in euros	C.A. Linse	Prof. J.M. Bensing	I.G.C. Faber MBA	I.H.J. Vanden Berghe	J.D. Lamse-Minderhoud RA	Prof. PPC.C. Verbeek	H.W. Broeders	P.J.M. van Laarhoven
Position(s)	Member of supervisory board (Chair)	Member of supervisory board	Member of supervisory board	Member of supervisory board	Member of supervisory board	Member of supervisory board	Member of supervisory board	Member of supervisory board
Length of service	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 30/6	1/10 - 31/12
Remuneration								
Pay	24,866.00	15,888.00	15,888.00	16,064.00	0.00	18,000.00	9,000.00	3,972.00
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total remuneration	24,866.00	15,888.00	15,888.00	16,064.00	0.00	18,000.00	9,000.00	3,972.00
Applicable WNT maximum	26,850.00	17,900.00	17,900.00	17,900.00	17,900.00	17,900.00	8,950.00	4,475.00
Reason for payment exceeding maximum (where applicable: see notes)						2	1	1

1. Falls under the transitional arrangements in accordance with Section. 7.3 in conjunction with Section 7.3a of the Standards for Remuneration Act.
2. Not charged, due to sickness.

REMUNERATION OR SEVERANCE PAYMENT EXCEEDING WNT MAXIMUM PAID TO NON-SENIOR OFFICIALS (1) The maximum remuneration does not apply these officials. Disclosure of this information is required, however.

Amounts in euros	Director	Head office staff	Theme staff	Expertise staff	Theme staff	Theme staff	Expertise staff
Length of service in 2016	1/1 - 29/2	-	1/1 - 31/3	1/1 - 30/6	1/1 - 31/3	1/1 - 31/3	1/1 - 30/4
Rate (in FTE)	1.0	1.0	1.0	0.6	1.0	1.0	1.0

Remuneration							
Pay	76,569.16	20,132.57	30,185.16	34,104.58	60,537.02	26,905.32	72,834.77
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	1,762.82	0.00	2,481.96	3,092.52	2,616.69	2,265.54	3,375.84
Total remuneration	78,331.98	20,132.57	32,667.12	37,197.10	63,153.71	29,170.86	76,210.61

Applicable WNT maximum							
Reason for payment exceeding maximum (where applicable: see notes)	a	a	a	a	a	a	a

a. The WNT does not apply these officials. Disclosure of this information is required, however.

TERMINATION BENEFITS PAID IN 2016

Total termination benefits paid	350,000.00	390,428.00	304,765.90	292,018.00	231,247.90	273,534.80	222,728.00
Applicable WNT maximum for severance pay							
Previous position							
Reason for payment exceeding maximum (where applicable: see notes)							

REQUIRED INFORMATION 2015

Position(s) in 2015	Director	Head office staff	Theme staff	Expertise staff	Theme staff	Theme staff	Expertise staff
Length of service in 2015	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Rate (FTE)	1.0	1.0	1.0	0.6	1.0	1.0	1.0

Remuneration							
Pay	162,970.61	170,529.95	101,271.28	73,846.48	106,409.66	86,073.79	100,527.56
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	10,357.20	10,357.20	9,785.64	6,098.88	10,323.24	8,922.96	9,984.48
Total remuneration 2015	173,327.81	180,887.15	111,056.92	79,945.36	116,732.90	94,996.75	110,512.04

REMUNERATION OR SEVERANCE PAYMENT EXCEEDING WNT MAXIMUM PAID TO NON-SENIOR OFFICIALS (2) The maximum remuneration does not apply these officials. Disclosure of this information is required, however.

Amounts in euros	Expertise staff	Expertise staff	Theme staff	Expertise staff	Expertise staff	Expertise staff	Expertise staff
Length of service in 2016	1/1 - 29/2	1/1 - 31/3	1/1 - 31/3	1/1 - 30/4	1/1 - 29/2	1/1 - 31/3	1/1 - 31/3
Rate (in FTE)	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Remuneration							
Pay	38,380.22	29,065.43	34,032.00	34,410.84	20,989.29	26,429.58	31,334.33
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	1,716.54	2,503.77	2,465.82	2,746.44	1,408.08	2,343.87	2,569.32
Total remuneration	40,096.76	31,569.20	36,497.82	37,157.28	22,397.37	28,773.45	33,903.65

Applicable WNT maximum							
Reason for payment exceeding maximum (where applicable: see notes)	a	a	a	a	a	a	a

a. The WNT does not apply these officials. Disclosure of this information is required, however.

TERMINATION BENEFITS PAID IN 2016

Total termination benefits paid	226,721.00	245,972.90	240,677.90	234,008.80	218,385.00	195,232.90	170,584.00
Applicable WNT maximum for severance pay							
Previous position							
Reason for payment exceeding maximum (where applicable: see notes)							

REQUIRED INFORMATION 2015

Position(s) in 2015	Expertise staff	Expertise staff	Theme staff	Expertise staff	Expertise staff	Expertise staff	Expertise staff
Length of service in 2015	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Rate (FTE)	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Remuneration							
Pay	110,137.81	98,871.36	96,969.31	82,236.36	77,047.73	94,353.38	102,577.10
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	10,155.48	9,873.12	9,720.96	8,090.37	8,311.44	9,189.72	10,133.52
Total remuneration 2015	120,293.29	108,744.48	106,690.27	90,326.73	85,359.17	103,543.10	112,710.62

REMUNERATION OR SEVERANCE PAYMENT EXCEEDING WNT MAXIMUM PAID TO NON-SENIOR OFFICIALS (3) The maximum remuneration does not apply these officials. Disclosure of this information is required, however.

Amounts in euros	Expertise staff	Expertise staff	Expertise staff	Expertise staff	Director	Expertise staff	Theme staff
Length of service in 2016	1/1 - 31/3	1/1 - 31/3	-	1/1 - 31/3	1/1 - 31/12	1/1 - 31/3	1/1 - 31/5
Rate (in FTE)	1.0	1.0	-	1.0	1.0	1.0	1.0
Remuneration							
Pay	31,602.09	50,054.44	6,804.20	26,717.79	236,426.44	22,872.85	65,183.07
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	1,929.81	2,105.37	0.00	2,356.59	10,576.92	2,036.16	4,407.05
Total remuneration	33,531.90	52,159.81	6,804.20	29,074.38	247,003.36	24,909.01	69,590.12

Applicable WNT maximum							
Reason for payment exceeding maximum (where applicable: see notes)	a	a	a	a	a	a	a

a. The WNT does not apply these officials. Disclosure of this information is required, however.

TERMINATION BENEFITS PAID IN 2016

Total termination benefits paid	192,062.80	151,455.80	250,000.00	153,784.90	0.00	166,014.00	85,047.00
Applicable WNT maximum for severance pay							
Previous position							
Reason for payment exceeding maximum (where applicable: see notes)							

REQUIRED INFORMATION 2015

Position(s) in 2015	Expertise staff	Expertise staff	Expertise staff	Expertise staff	Director	Expertise staff	Theme staff
Length of service in 2015	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Rate (FTE)	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Remuneration							
Pay	66,864.60	76,336.38	140,623.49	90,526.09	175,431.48	72,423.18	160,414.55
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	7,573.86	8,284.44	10,357.20	9,286.68	10,357.20	8,009.40	10,357.20
Total remuneration 2015	74,438.46	84,620.82	150,980.69	99,812.77	185,788.68	80,432.58	170,771.75

REMUNERATION OR SEVERANCE PAYMENT EXCEEDING WNT MAXIMUM PAID TO NON-SENIOR OFFICIALS (4) The maximum remuneration does not apply these officials. Disclosure of this information is required, however.

Amounts in euros	Head office staff	Expertise staff	Expertise staff	Director	Director	Director	Director
Length of service in 2016	1/1 - 31/12	1/1 - 31/3	1/1 - 31/3	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Rate (in FTE)	0.3	1.0	1.0	1.0	1.0	1.0	1.0

Remuneration							
Pay	71,805.36	29,570.32	74,044.89	197,848.44	196,742.67	195,153.86	193,108.88
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	3,173.04	2,105.37	2,021.10	10,576.92	10,576.92	10,576.92	10,576.92
Total remuneration	74,978.40	31,675.69	76,065.99	208,425.36	207,319.59	205,730.78	203,685.80

Applicable WNT maximum							
Reason for payment exceeding maximum (where applicable: see notes)	a	a	a	a	a	a	a

a. The WNT does not apply these officials. Disclosure of this information is required, however.

TERMINATION BENEFITS PAID IN 2016

Total termination benefits paid	0.00	136,297.90	93,337.00	0.00			
Applicable WNT maximum for severance pay							
Previous position							
Reason for payment exceeding maximum (where applicable: see notes)							

REQUIRED INFORMATION 2015

Position(s) in 2015	Head office staff	Expertise staff	Expertise staff	Director	Director	Director	Director
Length of service in 2015	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Rate (FTE)	0.3	1.0	1.0	1.0	1.0	100.0	1.0

Remuneration							
Pay	70,551.96	76,797.62	71,144.97	196,110.23	191,451.92	193,448.62	191,514.75
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	3,107.16	8,284.44	7,924.53	10,357.20	10,357.20	10,357.20	10,357.20
Total remuneration 2015	73,659.12	85,082.06	79,069.50	206,467.43	201,809.12	203,805.82	201,871.95

REMUNERATION OR SEVERANCE PAYMENT EXCEEDING WNT MAXIMUM PAID TO NON-SENIOR OFFICIALS (5) The maximum remuneration does not apply these officials. Disclosure of this information is required, however.

Amounts in euros	Director	Director	Theme staff	Expertise staff	Director	Theme staff	Expertise staff
Length of service in 2016	1/1 - 31/12	1/1 - 31/2	1/1 - 31/3	1/1 - 31/3	1/1 - 31/12	1/1 - 31/12	1/1 - 31/3
Rate (in FTE)	1.0	1.0	1.0	1.0	1.0	1.0	0.9

Remuneration							
Pay	188,270.67	189,147.24	25,714.62	26,193.93	178,229.24	175,888.37	22,737.29
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	10,576.92	10,576.92	2,266.08	2,153.49	10,576.92	10,576.92	1,926.87
Total remuneration	198,847.59	199,724.16	27,980.70	28,347.42	188,806.16	186,465.29	24,664.16

Applicable WNT maximum							
Reason for payment exceeding maximum (where applicable: see notes)	a	a	a	a	a	a	a

a. The WNT does not apply these officials. Disclosure of this information is required, however.

TERMINATION BENEFITS PAID IN 2016

Total termination benefits paid			108,252.80	109,415.00			100,886.90
Applicable WNT maximum for severance pay							
Previous position							
Reason for payment exceeding maximum (where applicable: see notes)							

REQUIRED INFORMATION 2015

Position(s) in 2015	Director	Director	Theme staff	Expertise staff	Director	Theme staff	Expertise staff
Length of service in 2015	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Rate (FTE)	1.0	1.0	1.0	1.0	100.0	1.0	0.9

Remuneration							
Pay	189,975.78	190,297.42	88,657.73	78,678.50	182,207.30	135,082.84	70,555.55
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	10,357.20	10,357.20	8,925.00	8,448.99	10,357.20	9,478.78	7,584.36
Total remuneration 2015	200,332.98	200,654.62	97,582.73	87,127.49	192,564.50	144,561.62	78,139.91

REMUNERATION OR SEVERANCE PAYMENT EXCEEDING WNT MAXIMUM PAID TO NON-SENIOR OFFICIALS (6) The maximum remuneration does not apply these officials. Disclosure of this information is required, however.

Amounts in euros	Expertise staff	Expertise staff	Expertise staff	Theme staff	Expertise staff	Expertise staff
Length of service in 2016	1/1 - 31/3	1/1 - 31/3	1/1 - 30/4	1/1 - 31/3	1/1 - 31/3	1/1 - 31/3
Rate (in FTE)	1.0	1.0	1.0	1.0	1.0	0.8

Remuneration

Pay	28,357.16	16,953.97	40,724.33	29,678.97	25,027.44	32,071.16
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	2,263.50	1,773.24	2,709.45	2,558.70	2,245.80	2,115.36

Total remuneration	30,620.66	18,727.21	43,433.78	32,237.67	27,273.24	44,910.22
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Applicable WNT maximum

Reason for payment exceeding maximum (where applicable: see notes)	a	a	a	a	a	a
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a. The WNT does not apply these officials. Disclosure of this information is required, however.

TERMINATION BENEFITS PAID IN 2016

Total termination benefits paid	92.307,00	122.104,84	91.521,90	72.676,00	86.680,00	43.843,00
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Applicable WNT maximum for severance pay

Previous position

Reason for payment exceeding maximum
(where applicable: see notes)

REQUIRED INFORMATION 2015

Position(s) in 2015	Expertise staff	Expertise staff	Expertise staff	Theme staff	Expertise staff	Expertise staff
Length of service in 2015	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Rate (FTE)	1.0	1.0	1.0	1.0	1.0	0.8

Remuneration

Pay	85,234.24	57,866.41	71,585.99	106,995.49	90,876.15	97,448.43
Taxable expense allowances	0.00	0.00	0.00	0.00	0.00	0.00
Deferred pay	8,914.56	6,961.44	7,955.58	10,091.88	8,844.84	10,357.20

Total remuneration 2015	94,148.80	64,827.85	79,541.57	117,087.37	99,720.99	107,805.63
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Up to the end of 2015, the cost of the lease car was recognised under the taxable expense allowances. As from 2016, these costs are recognised under pay. The comparative figures have been adjusted where necessary.

› TNO ORGANISATION COMPLIANCE STATEMENT 2016:
STANDARDS FOR REMUNERATION ACT (WNT)

In the third quarter of 2015, TNO went through a sweeping restructuring following the reduction in government funding. The restructuring had already been foreseen at the beginning of 2015. In total, more than 100 employees lost their job. TNO was able to relocate a number of them internally or externally, but it unfortunately had to make a large number of colleagues redundant. In the second quarter of 2015, TNO, in connection with this restructuring, agreed a redundancy scheme with the Works Council where the amount of severance pay for those employees made redundant as a result of the restructuring was based on the recommendation of the group of sub-district courts ('neutral sub-district court formula'), which was applicable in the period prior to 1 July 2015. The redundancy regulations for dismissal at the employer's request and the method for calculating the severance payment (in accordance with the Work and Security Act [*Wet werk en zekerheid (WWZ)*]) have been changed as at 1 July 2015. As from that date, the statutory transitional allowance applies as the severance payment as set out in the Dutch Civil Code. The transitional allowance is generally lower than the severance payment based on the neutral sub-district court formula. The introduction of the Work and Security Act was the application of a transitional provision for redundancy schemes established prior to 1 July 2015. TNO has agreed with the Works Council that the transitional provision should be applicable to this restructuring. The present severance payments are based on the neutral sub-district court formula as applicable in the period prior to 1 July 2015. Half-pay schemes or additions to unemployment benefits do not apply to TNO.

MEMBERS OF THE BOARD OF MANAGEMENT

P. de Krom, CEO

Since 01-03-2015

Management and supervisory board positions

- President, TO2 Federation
- Supervisory director, HTM Beheer B.V. (public transport)
- Supervisory director, HTM Personenvervoer (public transport)
- Director, Royal Holland Society of Sciences and Humanities
- Supervisory director, Utrecht University of Applied Sciences
- Board member, Thorbecke Society (Montesquieu Institute)
- Chairman, Thorbecke Club, De Witte Society

Vice Admiral (retd) W. Nagtegaal, COO

Since 01-02-2014

Management and supervisory board positions

- Supervisory director, National Maritime Museum Association
- Board member, The Netherlands Industries for Defence and Security (NIDV)
- Board member, Maritime by Holland (NML)
- Supervisory director, The Hague Centre for Strategic Studies (HCSS)
- Chairman of the Board of Trustees, Dutch Centre of Maritime Expertise (MKC)

F. Marring, CFO

Since 01-02-2014

Management and supervisory board positions

- Trustee and board member, TNO Pension Fund
- Supervisory director and chair of the Audit Committee, Oasen N.V.
- Supervisory director and chair of the Audit Committee, Novec B.V.
- Board member, Stichting Beheer LTP

Prof. J.T.F. Keurentjes, CSO

Since 01-02-2014

Management and supervisory board positions

- Professor, Eindhoven University of Technology
- Board member, TKI HTSM
- Board member, Holland High Tech Foundation
- Board member, Energy Top Sector
- Supervisory director, TKI Bio-Based Economy
- Member, NWO Programme Council and Assessment Committee for Chemical Sciences
- Member, steering committee of the National Research Agenda
- Supervisory director, QuTech
- Member, VNO-NCW committee for technology and innovation
- Member, National Steering Committee for Applied Research (NRPO-SIA)
- Trustee, Future of Technology Foundation (STT)
- Supervisory director, Ventinova Medical B.V.

J. Hoegge, Secretary

Since 15-10-2014

MEMBERS OF THE SUPERVISORY BOARD

C.A. Linse, Chair

Since 01-03-2011

Management and supervisory board positions

- Supervisory director of AKZO Nobel Nederland B.V.
- Supervisory director of MRC Global Inc. Houston
- Chairman of Netherlands Commission for Environmental Assessment
- Chairman of the supervisory board, LUMC, Leiden
- Chairman of the supervisory board, Museum of the Canals, Amsterdam

I.H.J. Vanden Berghe

Since 01-02-2011

Management and supervisory board positions

- Administrator General of the National Geographic Institute
- President of Eurogeographics
- Member of the Council of Administrators General of the Parastatal Institutions
- Chairman of the Interparastatal Internship Committee
- Visiting professor at the University of Leuven
- Member of the board of the Flemish Institute for Technological Research (VITO)
- Member of the executive committee of the Royal Museum for Central Africa and the Royal Belgian Institute of Natural Sciences

Prof. J.M. Bensing

Since 01-09-2008

Management and supervisory board positions

- Retired since 01-04-2015
- Honorary Research Fellow, Netherlands Institute for Health Services Research (NIVEL)
- Faculty head at Utrecht University, faculty of Social Sciences
- Member of the Royal Netherlands Academy of Arts and Sciences (KNAW)
- Vice-chairman of the supervisory board, Dutch Consumer Association
- Vice-chairman of the supervisory board, Flevo Hospital
- Vice-chairman of the supervisory board, Medisch Spectrum Twente
- Supervisory director, De Hoogstraat Revalidation Centre
- Supervisory director, Waarborgfonds van de Zorg (WfZ)
- Auditor for the accreditation of health care organisation directors (NVZD)

I.G.C. Faber MBA

Since 01-10-2009

Management and supervisory board positions

- Chief Executive Officer, Pooling Partners/ Faber Halbertsma Group
- Supervisory director, Jaarbeurs Conference and Exhibition Centre, Utrecht
- Supervisory director, Rova Zwolle (waste processing)
- Board member, National Register of Supervisory Directors
- Supervisory director, Probos (sustainable forestry)

MEMBERS OF THE SUPERVISORY BOARD

H.W. Broeders

01-07-2006 to 01-07-2016

Management and supervisory board positions

- Non-executive director, Forrester Research
- President of the Executive Board, Jaarbeurs Conference and Exhibition Centre, Utrecht
- Supervisory director, Triple-P N.V. (information technology)
- Chairman of the Trustees of the Hilversum Museum Foundation
- President, Netherlands International Chamber of Commerce
- Trustee, International Liszt Piano Competition Foundation
- Chair, Economic Board Utrecht
- Chairman of the supervisory board, Mazars Accountants Netherlands

P.J.M. van Laarhoven

Since 01-10-2016

Management and supervisory board positions

- Chairman of the board, Centrum Wiskunde & Informatica (research centre for mathematics and theoretical computer science)
- Member of Strategic Platform for Logistics (logistics top team)
- Chairman of the supervisory board, CQM
- Member of Airports Council International Policy Committee (ACI)
- Supervisory director, Connecting Sustainable Cities (Verdus)
- Member of transition steering committee, NWO

J.D. Lamse-Minderhoud RA

Since 01-07-2013

Management and supervisory board positions

- Managing director, PriceWaterHouseCoopers Netherlands (PwC) and EMEA Human Capital leader

Prof. P.P.C.C. Verbeek

Since: 01-05-2012

Management and supervisory board positions

- Professor of Philosophy of Man and Technology, University of Twente
- Vice-dean of the Faculty of Behavioural, Management and Social Sciences, University of Twente
- Co-director of DesignLab, University of Twente
- Honorary adjunct professor, Aalborg University
- Member of the UNESCO World Commission on the Ethics of Science and Technology (COMEST)
- Board member, Rathenau Institute
- Member of NWO programme council for Socially Responsible Innovation
- Member of the Netherlands Council for the Humanities, KNAW
- Member of the Dutch Centre of Ethics and Health (cooperation between Health Council and National Health and Society Council)
- Member of the editorial boards of SATS. Journal for Northern Philosophy, and Philosophy & Technology

J. Hoegge, Secretary

Since 15-10-2014

STRATEGIC ADVISORY COUNCILS

SAC on Defence, Safety and Security

- Major General (ret'd) A.C.J. Besselink (chair)
- L. Roffel – Thales Netherlands
- H.J.J. Lenferink – Local Authority of Leiden
- G. van Klaveren – South Limburg (Maastricht)
- Prof. H. Rudolph – Dutch Defence Academy
- R. Nulkes – NIDV
- P. Taal – Ministry of Economic Affairs
- R. Berkvens – Damen Shipyards
- P. Zorko – NCTV
- C. Haarmeijer – RE-LiON
- Prof. H. Bijl – Delft University of Technology
- Prof. I. Helsloot – Radboud University, Nijmegen
- General Major. E. Schevenhoven – Ministry of Defence
- S.J.G. Reyn – Ministry of Defence
- Rear Admiral A.J. de Waard – Ministry of Defence (until February 2016)

SAC on Energy

- P. Jansen – Local Authority of Utrecht (chair)
- Prof. P. Hoekstra – Utrecht University
- G.C. Sebregts – Shell Nederland
- P. van Riel – FUGRO N.V.
- J.K. Rameau – Eneco (since July 2016)
- J.F. de Haas – Eneco (until July 2016)
- P.C. Molengraaf – Alliander
- Prof. T.H.J.J. van der Hagen – Delft University of Technology
- G.J. Lankhorst – GasTerra
- G.J.M. Schotman – NAM
- C.B.F. Kuijpers – Ministry of Infrastructure and Environment
- D.P. Molenaar – Siemens Netherlands
- J. Roodenburg, Huisman Equipment B.V.
- J.W. van Hoogstraten – EBN B.V. (since June 2016)
- J.M.C. Smallenbroek – Ministry of Economic Affairs (since June 2016)
- J.D. Bokhoven (until June 2016)
- E.J. de Vries (until June 2016)
- B.J. Krouwel (until November 2016)
- T. Klip-Martin – Vallei and Veluwe District Water Board (until November 2016)

SAC on Healthy Living

- Prof. E.C. Klasen (chair)
- Prof. E. Meijer – Agrifood Top Sector
- C. Oudshoorn – VNO-NCW
- D.M.J.J. Monisssen – Maxima Hospital, Utrecht
- H. Smid – ZonMW
- J.W. Hofstraat – Philips Research

SAC on Industry

- A.H. Lundqvist (chair)
- J.R.H. Benschop – ASML
- Prof. H. Brinksma – University of Twente
- P.D.L. Deferm – IMEC
- J.F.E. Farwerck – KPN Netherlands
- H. van Houten – Philips Research
- Prof. R.L. Lagendijk – Delft University of Technology
- J. Rotteveel – Innovative Solutions in Space
- D.A. Schipper – Demcon
- J.K. Wesseling – Ministry of Economic Affairs
- M. Wubbolts – DSM (since December Corbion)

SAC on Urbanisation

- S.M. Dekker (chair)
- F.J. van Bruggen – Dutch AA
- J.H. Dronkers – Ministry of Waterways and Public Works
- L.H. Keijts – Portaal Foundation
- M. Minnesma MBA – Urgenda Foundation
- R. Paul – Port of Rotterdam
- A. Rakhorst – Duurzaam.nl
- M. Unck – NS
- N.J. de Vries
- H. Schippers – DAF Trucks N.V. (until March 2016)

PARTICIPATING INTERESTS

AS AT 31 DECEMBER 2016, TNO HOLDS A DIRECT INTEREST IN THE FOLLOWING ENTITIES

Name	Location	%
TNO International Agencies BV (TIA)	Delft	100%
TNO Affiliates Holding BV	Delft	100%
– TNO Heimolen BV	Bergen op Zoom	100%
TNO Companies Holding BV	Delft	100%
– TNO Bedrijven BV	Delft	100%
– TNO Deelnemingen BV	Delft	100%
– TNO Technostarters BV	Delft	100%
Dutchear BV (formerly TPSS)	Delft	100%
– TASS International BV	Delft	100%
– TASS International Software and Services BV	Delft	100%
– TASS International Software BV	Delft	100%
– TASS International Inc	Livonia (Michigan), USA	100%
– TASS International K.K.	Yokohama, Japan	100%
– TASS International GmbH	Stuttgart, Germany	100%
– TASS International Co. Ltd	Shanghai, China	100%
– TASS International Co. Ltd	Seoul, South Korea	100%
– TASS International Homologations BV	Helmond	100%
– TASS International Powertrain Center BV	Helmond	100%
– TASS International Mobility Center BV	Helmond	100%
– TASS International Safety Center BV	Helmond	100%
Den Haag Centrum voor Strategische Studies BV	The Hague	80%
– Holland Metrology NV	Delft	100%
– Verispect BV	Delft	100%
– NMI Certin BV	Delft	100%
– NMI Italia SRL	Padua, Italy	85%
– VSL BV (formerly NMI Van Swinden Lab.)	Delft	100%
DIANA FEA (formerly TNO Diana BV)	Delft	70%
– TNO Diana NA Inc.	Delaware, USA	100%
DUCARES BV	Zeist	100%
Triskelion B.V. (formerly TNO Triskelion B.V.)	Zeist	100%
ProQares B.V.	Rijswijk	100%
– ProQares USA Inc.	Washington, DC, USA	100%
CelSian Glass & Solar BV	Eindhoven	100%
Endures BV	Delft	100%
Prime Data BV	Delft	100%
LDI Systems	Delft	70%
NearField Instruments	Delft	100%

› PARTICIPATING INTERESTS

THE FOLLOWING ENTITIES ARE NOT CONSOLIDATED

Name	Location	%
YES!Delft BV	Delft	20%
Beyond Genomics Medicine Inc.	Waltham, USA	0%
Automotive Facilities Brainport Holding NV	Helmond	24%
Prime Vision BV	Delft	40%
Scapeye BV	Delft	50%
GnTel BV	Groningen	33%
Noord Tech Venture CV	Groningen	3%
NMi UK	Bangor, UK	51%
Noria Fibre Technologies B.V.	Delft	14%
Innoser Laboratories B.V.	Leiden	50%
Dariuz BV	Eindhoven	29%
Efectis Holding SAS	Saint-Aubin, France	50%
– Efectis France SAS	Saint-Aubin, France	100%
– Efectis Investment NL BV	Rijswijk	100%
– Efectis Nederland BV	Delft	100%
– Efectis Real Estate Company (EREC) BV	Rijswijk	100%
– Efectis Eurasia	Istanbul, Turkey	100%
– Efectis Era Avrasya	Istanbul, Turkey	60%
– Efectis Outlabs Ventilation SAS	Saint-Aubin, France	70%
SoLayTec B.V.	Eindhoven	14%
BATAVIA Biosciences BV	Leiden	27%
– BATAVIA Holdings Inc	Dover (Delaware), USA	25%
– BATAVIA Bioservices Inc	Woburn (Massachusetts), USA	100%
BIODENTIFY BV	Hilversum	100%
Cosanta BV	Amstelveen	44%
APP Beheer BV	Bergen op Zoom	43%
– Aerospace Propulsion Products BV (APP)	Hoogerheide	30%
– APP Onroerend Goed BV	Klundert	100%
– APP Onroerend Goed BV	Klundert	100%

› PARTICIPATING INTERESTS

DISPOSAL/DISCONTINUED IN 2016

Name	Location	%
SU Biomedicine BV (sold 8-12-2016)	Zeist	70%
Euroloop BV (sold 12-10-2016)	Rotterdam	100%
Transport & Mobility Leuven NV (sold 16-2-2016)	Leuven	50%
Dyadic International, Inc.	Jupiter, USA	0%
– Efectis Ibérica S.L. (wound up)	Madrid, Spain	27%
Trinomics BV (sold 26-1-2016)	Rotterdam	25%
Dutch DNA Biotech BV (sold 1-4-2016)	Zeist	33%
Mestcorp Inc.	Lake Oswego, USA	6%

As at year-end 2016, TNO also has branch offices in Singapore, Qatar and Aruba.

Delft, 17 March 2017

TO: THE SUPERVISORY BOARD AND
THE BOARD OF THE NEDERLANDSE
ORGANISATIE VOOR TOEGEPAST-
NATUURWETENSCHAPPELIJK
ONDERZOEK TNO

REPORT ON THE ACCOMPANYING FINANCIAL STATEMENTS

Our opinion

We have audited the financial statements 2016 of the Nederlandse Organisatie voor toegepast-natuurwetenschappelijk onderzoek (TNO) (hereafter TNO), based in Delft.

In our opinion the accompanying financial statements give a true and fair view of the financial position of TNO as at 31 December 2016, and of its result for 2016 in accordance with the Guideline for financial reporting TNO of the Ministry of Education, Culture and Science, the additional letter dated 21 April 2004 with reference OWB/FO/2004/8195 and the requirements of the Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector (WNT).

The financial statements comprise:

- 1 the consolidated and company balance sheet as at 31 December 2016;
- 2 the consolidated and company profit and loss account for 2016; and
- 3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing, the Controleprotocol TNO and the Controleprotocol WNT. Our responsibilities under those standards are further described in the our responsibilities for the audit of the financial statements section of our report.

We are independent of TNO in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the annual report;
- other information.

Based on the following procedures performed, we conclude that the other

information is consistent with the financial statements and does not contain material misstatements.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of the Dutch Standard 720 and the Controleprotocol TNO. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The board is responsible for the preparation of the other information.

DESCRIPTION OF THE RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Responsibilities of the board and the Supervisory Board for the financial statements

The board is responsible for the preparation and fair presentation of the financial statements in accordance with the Guideline for financial reporting TNO of the Ministry of Education, Culture and Science, the additional letter dated 21 April 2004 with reference OWB/FO/2004/8195 and the requirements of the WNT. Furthermore, the board is responsible for such internal control as

the board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the board is responsible for assessing the TNO's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board should prepare the financial statements using the going concern basis of accounting unless the board either intends to liquidate TNO or to cease operations, or has no realistic alternative but to do so. The board should disclose events and circumstances that may cast significant doubt on the TNO's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the financial reporting process of TNO.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit. Misstatements can arise from fraud or

errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TNO's internal control;

- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board;
- concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on TNO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause TNO ceasing to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the

audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Rotterdam, 15 March 2017

KPMG Accountants N.V.

J.J. Visser RA

› ACKNOWLEDGEMENTS AND CONTACT INFORMATION

› For further information about TNO, or if you have any questions or suggestions further to this report, please contact infodesk@tno.nl.

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› TNO.NL

TNO innovation
for life