

› **FINANCIAL
STATEMENTS
2017**

TNO innovation
for life

TNO.NL

› FINANCIAL STATEMENTS 2017

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The original financial statements were drafted in Dutch. This document is an English 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 2017

(in thousands of euros)

after profit appropriation

		31/12/2017	31/12/2016
Fixed assets			
Intangible assets	1	-	7,049
Property, plant and equipment	2	177,367	179,833
Financial assets	3	19,425	9,633
		196,792	196,515
Current assets			
Inventories		653	656
Receivables	4	63,650	74,235
Cash and cash equivalents	5	168,229	149,110
		232,532	224,001
Total		429,324	420,516
Equity			
General reserve	6	193,447	113,128
Statutory reserve	7	16,441	14,386
Special reserves	8	39,695	63,754
		249,583	191,268
Minority interest		-	56
Investment grants equalisation account	9	19,758	24,803
Provisions	10	6,461	8,111
Long-term liabilities	11	5,264	16,807
Current liabilities	12	148,258	179,471
Total		429,324	420,516

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of euros)

			2017	2016
Revenue	13	461,387	530,604	
Other operating income	14	15,966	14,718	
Total operating income			477,353	545,322
Direct project costs	15	-68,509	-76,042	
Personnel expenses	16	-301,423	-320,615	
Amortisation		-2,073	-3,921	
Depreciation	17	-19,201	-23,362	
Other operating expenses	18	-88,976	-99,597	
Total operating expenses			-480,182	-523,537
Operating profit (loss)			-2,829	21,785
Finance income and expenses	19		-599	1,772
Profit (loss) from ordinary activities before tax			-3,428	23,557
Corporation tax	20		979	125
Share of profit (loss) of participating interests	21		60,836	-10,323
Profit (loss) from ordinary activities after tax			58,387	13,359
Minority interest			-72	797
Net profit (loss)			58,315	14,156
Profit appropriation				
Net profit (loss)			58,315	14,156
Addition to:				
- statutory reserve		-2,055	-2,379	
- special reserve for construction of new defence buildings		-3,061	-3,576	
			-5,116	-5,955
Withdrawal from:				
- special reserve for defence operating risks		-	2,500	
- special reserve for construction of new defence buildings		27,120	9,383	
			27,120	11,883
Profit (loss) after changes in special reserves			80,319	20,084
Change in general reserve			-80,319	-20,084
			-	-

CONSOLIDATED CASH FLOW STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT

		2017	2016
Operating profit (loss)	-2,829	21,785	
Amortisation and depreciation	21,274	27,283	
Change in provisions	-199	-11,281	
Change in working capital, excl. cash and cash equivalents	-3,506	16,172	
Cash flow from business operations	14,740	53,959	
Interest received	248	460	
Interest paid	-754	-950	
Dividends received	-	556	
Corporation tax	-5,060	-507	
Cash flow from operating activities		9,174	53,518
Investments in intangible assets	-4,423	-4,418	
Investments in property, plant and equipment	-56,173	-34,634	
Investments in financial assets	266	-419	
Disposals of intangible assets	-	8	
Disposals of property, plant and equipment	10,962	64	
Change in minority interest	-1	-546	
Disposal of participating interests and repayments received	78,045	-844	
Cash flow from investing activities		28,676	-40,789
Loans drawn	2,715	2,639	
Repayments on loans	-327	-1,153	
Cash flow from financing activities		2,388	1,486
Cash flow for financial year		40,238	14,215
Cash and cash equivalents as at 1 January		149,110	134,895
Cash flow for financial year		40,238	14,215
Deconsolidations		-21,119	-
Exchange differences		-	-
Cash and cash equivalents as at 31 December		168,229	149,110

STATEMENT OF COMPREHENSIVE INCOME

	2017	2016
Consolidated net profit (loss) after tax	58,315	14,156
Foreign currency translation reserve	-	-55
Comprehensive income	58,315	14,101

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

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 Toegepast Natuurwetenschappelijk Onderzoek TNO ('TNO').
 Legal form: public corporate body with statutory task.
 Chamber of Commerce no.: 27376655.
 TNO has its registered office in Delft, the Netherlands.

Reporting period

These financial statements have been prepared for a reporting period of one calendar year.

Basis of preparation

The financial statements of TNO are prepared in accordance with the TNO Guidelines for Financial Reporting (*Richtlijnen Financiële Verslaggeving TNO*) as issued by the Minister of Education, Culture and Science.
 The TNO Guidelines for Financial Reporting are based on the statutory provisions of Part 9, Book 2, of the Dutch Civil Code. A supplementary order issued by the Minister of Education, Culture and Science exempts TNO from the provisions of Dutch Accounting Standard 271 'Employee benefits'.

The accounting policies that are applied for the valuation of assets and liabilities and the determination of profits or losses are based on the historical cost convention.

For the implementation of the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration Act (*Wet normering bezoldiging topfunctionarissen in de (semi)publieke sector* (WNT)), TNO has complied with the policy rules on the application of this Act, which set the standards for the preparation of these financial statements.

Comparative figures

Where necessary, the comparative figures for 2016 have been reclassified to improve comparability with the figures for 2017. 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 stated at nominal value.

An asset is recognised in the balance sheet when it is probable that the future economic benefits associated with the asset will flow to TNO and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is probable that its settlement will result in an outflow of resources embodying economic benefits and the amount at which the settlement will take place can be measured reliably.

An asset or liability is derecognised from the balance sheet when a transaction results in the transfer of all or substantially all future economic benefits and all or substantially all risks associated with an asset or a liability to a third party. Furthermore, assets and liabilities are derecognised from the date on which they no longer meet the criteria regarding the probability of the future economic benefits or the reliability of their measurement.

Income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. Expenses are recognised when a decrease in future economic benefits related to a decrease of an asset or an increase in a liability has arisen that can be measured reliably.

Expenses are allocated to the period to which they relate.

The financial statements are presented in euros, TNO'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 TNO, its group companies and other legal entities over which TNO can exercise control or which are under its centralised management. Group companies are participating

interests in which TNO has a controlling interest, or can in some other way exercise significant influence over the operational and financial policy. In assessing whether TNO can exercise significant influence over the operational and financial policy, financial instruments containing directly exercisable potential voting rights are taken into account.

Interest held for sale are not consolidated if there was already an intention to sell the interest at the time of its acquisition, it is probable that the interest will be sold within a year and the other relevant indicators are met. These assets are recognised under current assets, as part of securities (held exclusively for resale). Newly acquired participating interests are consolidated from the date on which significant influence can be exercised over their business and financial policy.

The items in the consolidated financial statements are presented according to the group's uniform accounting policies. Participating interests that have been sold are consolidated up to the date on which significant influence can be no longer exercised over their business and financial policy.

In preparing the consolidated financial statements, intra-group shareholdings, debts, receivables and transactions are eliminated. The group companies are consolidated in full and the minority interest is disclosed separately.

Where losses attributable to the minority interest exceed the minority interest in the equity of the consolidated company, this excess and any further losses are charged in full to the majority shareholder.

The minority interest is disclosed separately as the final line item in the consolidated income statement and deducted from the group profit (loss).

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

Foreign currency transactions

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 into the functional currency on the balance sheet date at the exchange rate applying on that date. Currency 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 the exchange rate applying on the reporting date. Income and expenses of foreign operations are translated

into euros at the average exchange rate for the reporting period, which a good approximation of recognition based on the exchange rate applying on the transaction date.

Translation gains and losses are taken to the foreign currency translation reserve. When a foreign operation is sold in whole or in part, the relevant amount in the foreign currency translation reserve is transferred to the income statement.

1.5 FINANCIAL INSTRUMENTS

Financial instruments include (other) receivables, cash, loans and borrowings and trade and other payables.

Financial instruments also include derivative financial instruments embedded in contracts (embedded derivatives). Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Financial instruments are initially recognised at fair value, which includes the share premium or discount and directly attributable transaction costs. However, if financial instruments are

subsequently measured at fair value through profit and loss, then directly attributable translation cost are directly recognised in the profit and loss account at the initial recognition.

Embedded financial instruments which are not separated from the host contract are recognised in accordance with the host contract.

Subsequent to initial recognition, financial instruments are measured in the manner described below.

Loans granted, (other) receivables, loans drawn and trade and other payables

These financial instruments are measured at amortised cost on the basis of the effective interest method.

The effect of discounting is generally insignificant for current receivables and payables with short maturities for which no explicit interest is calculated. The amortised cost of these items is therefore deemed to consist of their nominal value.

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

Deferred tax assets are stated at present value.

Long-term loans drawn are stated at nominal value.

Derivatives

Derivatives are stated at cost or lower market value, except if hedge accounting under cost price hedge accounting model is applied.

TNO makes limited use of forward exchange transactions to hedge foreign exchange risks arising from purchasing and selling transactions. When forward exchange contracts are used to hedge monetary assets and liabilities, cost price hedge accounting is applied to ensure that the gains or losses arising from the translation of the monetary items recognised in the income statement are offset by the change in the value of forward exchange contracts arising from their measurement at the spot rate at the reporting date. The difference between the spot rate of the forward exchange contract at the date of inception and its forward rate is amortised over the term of the forward exchange contract and taken to the income statement.

One TNO group company uses interest rate swaps to hedge interest rate risks arising from long-term loans. When interest rate swaps are used to hedge interest rate risks, cost price hedge accounting is applied to ensure that the net interest expense recognised in the income statement is not affected by changes in interest rates. The recognised interest expenses consist of the balance of the interest paid to borrowers and the income and expenses arising from the interest rate swaps.

When cost price hedge accounting is applied, derivatives are measured at fair value upon initial recognition. Derivatives are not remeasured as long as the derivative hedges the specific risk of an expected future transaction. As soon as the expected future transaction leads to the recognition of value changes in the income statement, the gain or loss associated with the derivative is recognised in the income statement. When the hedged item relating to an expected future leads to the recognition of a non-financial asset, TNO adjusts the cost price of this asset by offsetting it against the hedging gains and losses that had not been recognised in the income statement yet.

Any loss in respect of the percentage in excess of the value of the derivative relative to the hedged item is taken directly to the income statement based on cost or lower market value.

If a derivative instrument expires or is sold, the hedging relationships are terminated. The cumulative gain or loss that has not yet been recognised in the income statement is recognised as a accrued or deferred item in the balance sheet until the hedged transactions occur. If the transactions are no longer expected to occur, the cumulative gain or loss is transferred to the income statement. TNO documents its hedge relationships in specific hedge documentation and regularly reviews the effectiveness of

the hedge relationships by establishing whether the hedges are effective and that there are no overhedges.

1.6 INTANGIBLE ASSETS

Goodwill represents the excess of the cost of acquisition of the participating interests over TNO's interest in the net fair value of the assets acquired and the liabilities assumed from the acquiree, less accumulated amortisation, depreciation and any impairment losses. Goodwill is amortised over the expected useful life of the acquired participating interest, which in principle does not exceed five years.

The other intangible assets relate to development costs, which are capitalised to the extent that they relate to projects considered to be commercially feasible. The development of an intangible asset is considered to be commercially feasible if the completion of the asset is technically feasible, TNO intends to complete the asset and then to use or selling it (and there are also adequate technical, financial and other resources available to achieve this), TNO has the ability to use or sell the asset, it is probable that the asset will generate future economic benefits and the expenses incurred during the development phase can be determined reliably. Development costs are stated at production cost, less accumulated amortisation and any impairment losses. These costs mainly comprise the salary costs of the relevant employees and the

cost of obtaining external expertise, including fees paid to their parties for research and development, licence rights and software programs. Upon termination of the development stage, the capitalised costs are amortised over the expected useful life of the asset, which in principle does not exceed five years, using the straight-line method. Development costs are capitalised only if it can be reasonably expected that these costs will be covered by future income. A statutory reserve is formed for the part of the capitalised development costs that has not yet been amortised.

1.7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost of acquisition or, where they concern assets constructed by TNO itself, at cost of manufacture, less accumulated depreciation based on the asset's expected useful life and less any impairment losses.

Depreciation is calculated as a percentage of the cost of acquisition according to the straight-line method on the basis of each asset's useful life. Land, assets under construction and prepayments on assets are not depreciated.

The recognition of depreciation starts when an asset is available for its intended use and ends upon its decommissioning or disposal.

1.8 FINANCIAL ASSETS

Participating interests where TNO can exercise significant influence over the business and financial policy are measured according to the equity method on the basis of their net asset value. The net asset value is determined on the basis of TNO's accounting policies. Participating interests with a negative net asset value are measured at nil. When TNO guarantees the debts of the relevant participating interest, a provision is recognised.

This provision is recognised primarily to the debit of the receivables from the participating interest, with the remainder, comprising TNO share of the losses the participating interest, or the expected payments by TNO on behalf of the participating interest, being presented under provisions.

Participating interests where no significant influence is exercised are stated at their cost of acquisition or lower recoverable amount.

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

Dividends are accounted for in the period in which they are declared. Interest income is recognised in the period to which it relates, using the effective interest rate method. Any gains or losses are recognised under finance income and expenses.

1.9 IMPAIRMENT

Fixed assets with a long life are tested for impairment whenever changes or situations occur that indicate that the carrying amount of an asset may not be recovered. The recoverability of assets in use is determined by comparing the carrying amount of an asset with the estimated present value of the future net cash flows that the assets is expected to generate.

If the carrying amount of an asset exceeds the estimated present value of the future cash flows, an impairment loss is recognised for the difference between the carrying amount and the recoverable amount.

1.10 INVENTORIES

Raw materials and consumables are stated at their cost of acquisition or lower net realisable value. The valuation of the inventories takes into account any impairment losses that may have arisen as at balance sheet date.

1.11 PROJECTS IN PROGRESS

Projects in progress concern projects carried out under contracts. Included in the valuation of projects in progress are the costs that relate directly to the relevant contract (for example, personnel costs for employees whose activities relate directly to the contract and costs of raw materials and consumables), the costs that are attributable to contract activities in general and can be allocated to the relevant contract, and other costs

chargeable to the client under the terms of the contract. Expenses related to project costs that lead to the completion of the required deliverables after the balance sheet date are assets if it is probable that they will lead to revenue in a subsequent period. Where necessary, a provision for expected losses is deducted from projects in progress. Amounts billed in advance are deducted from projects in progress.

1.12 RECEIVABLES

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

1.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are stated at nominal value. Where cash and cash equivalents are not at TNO's free disposal, this is reflected in their valuation.

Transactions denominated in foreign currency are translated at the balance sheet date into the relevant functional currency at the exchange rate applying on that date. For further information, see the accounting principles for the costing of foreign currency transactions.

1.14 EQUITY

Financial instruments that qualify as equity instruments by virtue of their economic substance are presented under equity. Financial instruments that qualify as financial liabilities by virtue of their economic substance are presented under liabilities. Gains, losses, income and expenses with respect to these financial

instruments are recognised in income statement as financial income or expenses.

Statutory reserve

The statutory reserve concerns 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 the TNO Guidelines for Financial Reporting, special reserves may be formed to allow for future expenditure or costs, or to cover economic and technical risks. Withdrawals are charged to the special reserves as part of the appropriation of the profit (loss) for the year, provided they are in accordance with the special purposes of these reserves.

The special reserve for 'civil operating risks' is formed to cover economic and technical risks. Until the maximum amount of this special reserve has been reached, TNO's Board of Management annually adds a percentage of the funding and contracts from both the government and third parties to the reserve as part of the appropriation of the profit (loss) for the year. A maximum amount of EUR 9.1 million was agreed with the government at the time.

The special reserve for the construction of new defence buildings related to defence research has been formed to cover future investments in renovation and/or new-

build projects. Additions to and withdrawals from this reserve are made annually as part of the appropriation of the profit (loss) for the year on the basis of specific agreements with the Council for Defence Research.

1.15 MINORITY INTEREST

The minority interest of third parties is stated at the net asset value of the interest of third parties in TNO's consolidated participating interests, which is measured in accordance with TNO's accounting policies.

1.16 INVESTMENT GRANTS EQUALISATION ACCOUNT

Grants provided by the government or third parties in respect of TNO's investment in an asset are recognised as liabilities in the balance sheet and systematically credited to the income statement over the useful life of the asset.

1.17 PROVISIONS

A provision is recognised in the balance sheet when:

- TNO has a present legal or constructive obligation as a result of a past event; and
- the amount can be estimated reliably; and
- 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, or the present value of the expenditure.

The provision for employee and post-employment benefits has been formed to cover current benefits and agreed future benefits payable to former and current employees of TNO under TNO's terms and conditions of their employment. The portion of the provision relating to current pension benefits is based on actuarial calculations for which a discount rate of 4% is applied.

The provision for claims has been formed for potential liabilities arising from ongoing legal proceedings. The provision for restructurings has been formed to cover costs associated with ongoing or impending (partial or full) restructurings.

The provision for redundancies has been formed to cover the expected costs associated with the planned termination of employment contracts with employees, other than in the context of restructurings.

The provision for major maintenance has been formed for the equalisation of the costs of major maintenance of buildings owned by TNO and its group companies, based on a multi-annual maintenance plan.

The other provisions have been formed mainly to cover the expected costs of onerous tenancy contracts.

The main estimates relate to the restructuring provision, the provision for redundancies and the other provisions.

1.18 EMPLOYEE BENEFITS / PENSIONS

TNO has a number of pension schemes. The most significant pension scheme is administered by Stichting Pensioenfonds TNO and qualified as a defined benefit scheme.

An order issued by the Minister of Education, Culture and Science stipulates that Dutch Accounting Standard 271 'Employee benefits' does not apply to TNO. The basis principle is that the pension expense to be recognised in the reporting period is equal to the pension contributions payable to the pension fund for the period.

To the extent that the payable contributions have not yet been paid as at balance sheet date, a liability is recognised. If as at balance sheet date, the contributions already paid exceed the contributions payable, an asset is recognised under 'Prepayments and accrued income' to account for any refund by the pension fund or settlement with future pension contributions payable.

In addition, a provision is recognised as at balance sheet date for existing additional obligations towards the pension fund and the employees if it is probable that there will be an outflow of resources embodying economic benefits to settle the obligations and the amount of the obligations

can be estimated. The existence or non-existence of additional obligations is assessed on the basis of the administration agreement with the pension fund, the pension agreement with the employees and other (explicit or implicit) commitments made to employees.

The provision is stated at the present value of the costs expected to be required to settle the obligations as at balance sheet date.

When there is a surplus at the pension fund as at balance sheet date, a receivable is recognised for this if TNO has the ability to control this surplus, if it is probable that the surplus will flow to TNO and the amount of the receivable can be determined reliably.

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 work performed, less any value added tax and changes in projects in progress.

Because there is a steady flow of projects that are completed at regular intervals throughout the year, and most are

completed within one year, the profits on projects in progress are recognised upon the completion of the projects.

The government provides funding to support the demand-driven 'programme' research for the benefit of the Top Sectors and societal transition themes. These funds are recognised as revenue in proportion to the stage of completion of the relevant work. Direct costs are defined as the tangible costs (including costs of outsourced work) that are directly attributable 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 that TNO will comply with the conditions associated with the grant. Grants that compensate TNO for expenses incurred are systematically recognised in the income statement as revenue in the same period as in which the expenses are recognised.

For information on grants that compensate TNO for an investment in an asset, see under 'Investment grants equalisation account'.

1.22 SHARE OF PROFIT (LOSS) OF PARTICIPATING INTERESTS

The share of the profit (loss) of participating interests consists of TNO's share of the profits or losses of the companies in which it has a participating

interest, determined on the basis of the accounting policies of the group. Gains or losses on transactions where assets or liabilities are transferred between TNO and its non-consolidated participating interests or between these non-participating interests are not recognised if they can be deemed unrealised. The profits or losses of participating interests acquired or disposed of during the financial year are included in TNO's profit (loss) for the year from the date of acquisition or until the date of disposal, respectively.

1.23 FINANCE INCOME AND EXPENSES

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

1.24 CORPORATION TAX / DEFERRED TAX ASSETS

Since 2016, TNO is liable for corporation tax. The calculation of the current and deferred corporation tax for 2017 has been based on the assumption that TNO is fully liable for corporation tax under the Corporation Tax Act.

As at 1 January 2016, when TNO first became liable for corporation tax, the opening tax balance sheet was prepared on the basis of the applicable tax accounting policies.

TNO Tech Transfer Holding BV, TNO International Holding BV and TNO Affiliates BV and all their Dutch subsidiaries are also subject to corporation tax.

Tax comprises the current corporation tax payable or recoverable for the reporting period and deferred corporation tax. Tax is recognised on the income statement, except if it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable (recoverable) respect of the taxable profit (tax loss) for the financial year, calculated using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

A provision for deferred tax liabilities is recognised for taxable temporary differences between the carrying amounts for financial reporting purposes and tax bases of assets and liabilities.

A deferred tax asset is recognised for deductible temporary differences, unused tax loss carry-forwards and unused tax credits, provided that it is probable that taxable profits will be available in future against which they can be offset or utilised. 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 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 average exchange rates for the relevant periods.

1.26 FAIR VALUE MEASUREMENT

A number of accounting policies and disclosures in the financial statements of TNO require the fair value measurement of both financial and non-financial assets and liabilities. For valuation and information purposes, fair values are determined based on the following methods.

(Other) receivables

The fair value of trade and other receivables is estimated based on the present value of the future cash flows.

Derivatives

The fair value of forward exchange contracts and interest rates swaps is based on their quoted market price, where available. If a quoted market price is not available, the fair value is estimated by discounting the expected cash flows to their present value using current interest rates, which include a risk premium for the relevant risks.

Non-derivative financial liabilities

The fair value of non-derivative financial liabilities (loans) is determined for information purposes only and is calculated based on the present value of future principal and interest payments,

discounted at the market interest rate at the reporting date.

Further information about the principles of fair value measurement is provided in the notes applicable to the relevant asset or liability.

1.27 USE OF ESTIMATES

The preparation of the financial statements requires that management makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 TNO, its participating interests and their directors and key management personnel. As part of its ordinary 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 2017

(in thousands of euros)

1 INTANGIBLE ASSETS

Changes in intangible assets in 2017:

	Goodwill	Software	Total
Balance at 31/12/2016			
Cost of acquisition	853	21,047	21,900
Accumulated amortisation and impairment	-611	-14,240	-14,851
Carrying amount	242	6,807	7,049
Change in carrying amount			
Investments	-	4,423	4,423
Impact of deconsolidation of TNO Bedrijven BV / TASS BV	-231	-7,510	-7,741
Disposals	-	-1,658	-1,658
Amortisation	-11	-2,062	-2,073
	-242	-6,807	-7,049
Balance at 31/12/2017			
Cost of acquisition	-	-	-
Accumulated amortisation and impairment	-	-	-
Carrying amount	-	-	-

2 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment in 2017:

	Land and buildings	Plant and equipment	Other operating assets	Fixtures and fittings	Total
Balance at 31/12/2016					
Cost of acquisition	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	10,898	8,723	-	24,219
Carrying amount	74,605	57,039	44,080	4,109	179,833
Change in carrying amount					
Investments	3,716	21,108	11,193	2,101	38,118
Disposals	-8,774	-3,970	-573	-3	-13,320
Impact of deconsolidation of TNO Bedrijven BV / TASS BV	-10,390	-98	-11,941	-840	-23,269
Depreciation	-2,428	-7,746	-10,976	-900	-22,050
Assets under construction and development recognised in financial year	-2,050	-17,821	-2,147	-	-22,018
Assets under construction new in 2017	10,885	21,798	7,319	71	40,073
	-9,041	13,271	-7,125	429	-2,466
Balance at 31/12/2017					
Cost of acquisition	168,972	166,675	100,312	12,609	448,568
Accumulated depreciation and impairment	-116,841	-111,240	-75,958	-8,142	-312,181
Assets under construction and development	13,433	14,875	12,601	71	40,980
Carrying amount	65,564	70,310	36,955	4,538	177,367

The depreciation expense presented in the income statement also includes the release from the investments grants equalisation account.

Of the carrying amount of property, plant and equipment as at 31 December 2017, EUR 25.5 million (2016: EUR 25.5 million) concerns land and buildings and plant and equipment of which TNO is the sole beneficial owner.

Applied depreciation periods in years

	2017	2016
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
Fixtures and fittings	10	10

3 FINANCIAL ASSETS

	Non-consolidated participating interests		Other loans	Total
	Share in equity	Loans		
Balance at 31/12/2016	9,041	258	334	9,633
Changes:				
Investments and loans granted	-	-	-	-
Disposals and repayments	-	-	-870	-870
Impact of deconsolidation of TNO Bedrijven BV	-8,995	-258	2,725	-6,528
Value changes	27	-	-	27
Share of profit (loss) / consolidation of participating interests	17,163	-	-	17,163
Balance at 31/12/2017	17,236	-	2,189	19,425

A list of all direct and indirect participating interests of TNO is included in the notes to the company financial statements. The share of the profit (loss) / consolidation of participating interests includes EUR 11.5 million relating to the remaining interest in FDI (formerly TNO Bedrijven BV).

4 RECEIVABLES

	31/12/2017	31/12/2016
Contract receivables	45,292	56,291
Receivables from participating interests	5,019	58
Deferred tax assets	6,156	5,690
Other receivables	947	6,498
Prepayments and accrued income	6,236	5,698
Total	63,650	74,235

In 2017, the receivables decreased by approximately EUR 18 million due to the deconsolidation of TNO Bedrijven BV.

Of the receivables, EUR 4.9 million (2016: EUR 3.6 million) falls due in more than one year. All items in prepayments and accrued income fall due in less than one year.

Deferred tax assets

	2017	2016
Balance at 1 January	5,690	5,538
Change in difference between tax bases and carrying amounts of PP&E	466	152
Balance at 31 December	6,156	5,690

Deferred tax assets are stated at present value. The present value is calculated based on an interest rate of 2.4% to 2.8% and a term to maturity of 15 to 24 years. The nominal value of the deferred tax assets totals EUR 15.9 million (2016: EUR 8.1 million).

Of the deferred tax assets, EUR 4.7 million (2016: EUR 2.9 million) is older than one year.

In view of the increased uncertainties and risks (integral, partial or no liability for corporation tax and profit development for the coming period), the valuation of the deferred tax assets was reviewed as at 31 December 2017 and this item it is now stated at EUR 6.2 million.

5 CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents as at year-end 2017 exceeds the special reserve for new defence buildings (see note 8). Cash and cash equivalents includes EUR 48.6 million in defence funds. Of cash and equivalents, EUR 15.4 million is not at the free disposal of TNO, due to potential liabilities in connection with the disposal of a participating interest.

6 GENERAL RESERVE

	2017	2016
Balance at 1 January	113,128	93,099
Foreign currency translation reserve	-	-55
Profit appropriation	80,319	20,084
Balance at 31 December	193,447	113,128

EUR 93.9 million of the general reserve concerns defence reserves.

7 STATUTORY RESERVE

	2017	2016
Balance at 1 January	14,386	12,007
Change	2,055	2,379
Balance at 31 December	16,441	14,386

Of the change in the statutory reserve, EUR 14.386 million concerns the deconsolidation in connection with the disposal of TNO Bedrijven BV, and EUR 16.441 million concerns non-distributable profits from participating interests in group companies.

8 SPECIAL RESERVES

	Balance at 31/12/2016	Withdrawn in 2017	Added in 2017	Balance at 31/12/2017
Civil operating risks	9,075	-	-	9,075
Construction of new defence buildings	54,679	27,120	3,061	30,620
Total	63,754	27,120	3,061	39,695

9 INVESTMENT GRANTS EQUALISATION ACCOUNT

	2017	2016
Balance at 1 January	24,803	28,011
Release in connection with disposals	-2,196	-
Release added to profit (loss) for the year	-2,849	-3,208
Balance at 31 December	19,758	24,803

10 PROVISIONS

	Balance at 31/12/2016	Withdrawn in 2017	Added in 2017	Deconsoli- dation in 2017	Release in 2017	Balance at 31/12/2017
Employee and post-employment benefits	588	18	33	-	-	603
Claims	800	-	-	-	-	800
Restructurings	146	606	2,324	351	58	1,455
Redundancies	1,933	1,611	729	-	69	982
Major maintenance	730	2,701	1,971	-	-	-
Other	3,914	680	156	473	296	2,621
Total	8,111	5,616	5,213	824	423	6,461

The provisions include approximately EUR 3.0 million in long-term provisions (2016: EUR 3.8 million). Further information about the provisions can be found under the heading 'Accounting policies' in the notes to the consolidated financial statements 2017.

11 LONG-TERM LIABILITIES

	31/12/2017	31/12/2016
Bank loans	-	13,150
Medium-term bank credit facility	-	1,044
Other loans	5,264	2,613
Total	5,264	16,807

In 2017, the long-term liabilities decreased by approximately EUR 14 million due to the deconsolidation of TNO Bedrijven BV.

TNO has at its disposal EZ grants from the Nederlands Enterprise Agency totalling EUR 5,264,000. EUR 2.7 million (2016: EUR 2.0 million) of the long-term liabilities has a term to maturity of between one and five years. The remainder of the long-term liabilities, amounting to EUR 2.6 million (2016: EUR 0.5 million), has a term to maturity of more than five years. No security has been furnished. The long-term liabilities are interest-free.

12 CURRENT LIABILITIES

	31/12/2017	31/12/2016
Payables	25,308	18,288
Amounts owed to participating interests	614	-
Taxes and social insurance contributions	17,921	26,066
Pensions	12	202
Holiday pay	7,028	9,134
Outstanding leave entitlement	13,838	13,532
Other liabilities	19,579	33,428
Accruals and deferred income	29,989	40,386
Projects in progress	33,969	38,435
Total	148,258	179,471

In 2017, the current liabilities decreased by approximately EUR 25 million due to the deconsolidation of TNO Bedrijven BV.

The other liabilities largely relate to costs accounted for in 2017 for which the settlement will take place in 2018. These current liabilities do not bear interest.

Accruals and deferred income largely relate to advances received in respect of specific research projects, as well as accrued government funding. Of the items in accruals and deferred income, EUR 5.4 million (2016: EUR 11.3 million) falls due in more than one year.

Projects in progress	31/12/2017	31/12/2016
Accumulated costs less provisions for losses and risks	318,170	321,222
Less: Accumulated progress billings	-352,139	-359,657
Total projects in progress	-33,969	-38,435
Balance of projects in progress > 0	100,213	90,524
Balance of projects in progress > 0	-134,182	-128,959
Total projects in progress	-33,969	-38,435

FINANCIAL INSTRUMENTS

General

As part of its ordinary activities, TNO uses various financial instruments that expose TNO to market and/or credit risks. These financial instruments, as well as forward exchange contracts and interest rate swaps for hedging future transactions, cash flows and interest rate risks, are recognised in the balance sheet. TNO does not trade in these financial instruments and has in place procedures and a code of conduct to limit the amount of credit risk to which it is exposed in respect of each counterparty or market. If a counterparty defaults on payments due to TNO, any risks arising from this default are limited to the market value of the relevant instruments. The contract value or notional principal amounts of the financial instruments serve only as an indication of the extent to which such financial instruments are used, and not of the amount of the credit or market risks.

Interest rate risk

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

Credit risk

TNO is exposed to credit risks associated with transactions where losses could occur if a counterparty were to default on payment. This risk is limited due to the large number and diversity of parties from which TNO's receivables are due. There is only a concentration of credit risk in terms of the geographic distribution of the outstanding receivables, which is concentrated in the Netherlands.

Market value

The market value of most of the financial instruments recognised in the balance sheet, including loans granted (other) receivables, cash and cash equivalents and trade and other payables, approximates their carrying amount.

The outstanding forward exchange contracts in US dollars (USD) have a market value of EUR 6.4 million and a contract value of EUR 6.9 million (2016: EUR 9.7 million and EUR 9.4 million, respectively). The outstanding forward exchange contracts in pounds sterling (GBP) have a market value of EUR 0.4 million and a contract value of EUR 0.4 million (2016: EUR 0.4 million and EUR 0.4 million, respectively).

Off-balance sheet assets and liabilities

As at 31 December 2017, the total operating lease liabilities for the period from 2018 to 2021 inclusive amounted to approximately EUR 3.5 million (2016: EUR 4.7 million), of which EUR 1.5 million falls due in 2018 (2017: EUR 2.1 million) and EUR 2.0 million (2016: EUR 2.6 million) in between one and five years.

As at year end 2017, rental commitments totalled EUR 63.1 million (2016: EUR 73.4 million), of which EUR 11.4 million (2016: EUR 12.3 million) falls due within one year, EUR 35.2 million (2016: EUR 39.7 million) in between one and five years, and EUR 16.5 million (2016: EUR 21.4 million) in more than five years.

As at 31 December 2017, investment obligations in respect of property, plant and equipment totalled EUR 4.9 million (2016: EUR 2.1 million).

Bank guarantees issued amounted to EUR 1.7 million (2016: EUR 3.4 million). The total credit facility amounted to EUR 13.3 million (2016: EUR 15.4 million) and the total bank guarantee facility amounted to EUR 11.0 million (2016: EUR 11.0 million).

Other securities and conditions for the total credit facility consist of:

- negative pledge/pari passu and cross-default covenant
- positive mortgage covenant with a negative pledge clause on the properties in Eindhoven
- joint account and joint liability agreement, security type: current account plus one party.

As at year-end 2017, the sureties furnished totalled nil (2016: EUR 4.7 million).

TNO is currently a litigant in various legal proceedings that relate to its ordinary activities. TNO does not expect that the total liabilities arising from these proceedings will be of material significance to its financial position.

Provisions have been recognised for all disputes and legal proceedings based on the nominal value of the expenditures that are expected to be required to settle the liabilities and losses.

NOTES TO THE CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of euros)

13 REVENUE

	2017	2016
Contract revenue	284,894	354,347
Government funding	176,493	176,257
Total	461,387	530,604

In 2017, revenue decreased by approximately EUR 62 million due to the deconsolidation of TNO Bedrijven BV.

Revenue includes the change in projects in progress of EUR 4.5 million (2016: EUR -2.6 million).

CONTRACT REVENUE

Contract revenue breaks down by category as follows:

	2017	2016
Domestic contract revenue		
Government	78,167	88,314
Industry	87,371	107,364
Total domestic contract revenue	165,538	195,678
International contract revenue		
International organisations	28,164	35,225
Other	91,192	123,444
Total international contract revenue	119,356	158,669
Total	284,894	354,347

14 OTHER OPERATING INCOME

	2017	2016
Gain (loss) on disposals of property, plant and equipment	901	-228
Other income	15,065	14,946
Total	15,966	14,718

In 2017, other operating income decreased by approximately EUR 3 million due to the deconsolidation of TNO Bedrijven BV.

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

15 DIRECT PROJECT COSTS

	2017	2016
Accommodation and energy costs	218	838
Materials	16,595	17,762
Use of operating assets	3,156	1,968
General administrative expenses	5,929	6,678
Outsourced work	42,045	44,949
Other expenses	566	3,847
Total	68,509	76,042

In 2017, the direct project costs decreased by approximately EUR 1 million due to the deconsolidation of TNO Bedrijven BV.

16 PERSONNEL EXPENSES

	2017	2016
Wages and salaries	199,001	226,308
Pension costs	23,793	25,662
Other social expenses	26,624	29,762
Other personnel expenses	50,975	49,493
Change in outstanding leave entitlement	306	22
Utilisation and release of provisions:		
- employee and post-employment benefits	-18	-103
- redundancies	-1,680	-2,445
- restructurings	-664	-9,819
	298,337	318,880
Addition to provisions:		
- employee and post-employment benefits	33	-
- restructurings	2,324	127
- redundancies	729	1,608
Total	301,423	320,615

In 2017, the personnel expenses decreased by approximately EUR 34 million due to the deconsolidation of TNO Bedrijven BV.

In 2017, the average number of employees totalled 2,999 FTEs, of which 35.3 FTEs were employed outside of the Netherlands (2016: 3,295 FTEs, of which 57.9 FTEs outside of the Netherlands). The remuneration, including pension contributions, of the members of TNO's Board of Management totalled EUR 0.8 million (2016: EUR 0.8 million). The remuneration of the members of TNO's Supervisory Board totalled EUR 0.1 million (2016: EUR 0.1 million).

As at 31 December 2017, the preliminary coverage ratio of Stichting Pensioenfonds TNO (12-month rolling average of the market value of the plan assets expressed as a percentage of the defined benefit obligation according to the accounting policies of the Dutch central bank) came to 114.0%. As the policy coverage ratio exceeds 110%, partial indexation is possible. The Board of Stichting Pensioenfonds has granted 0.42% indexation.

The total pension contribution for 2018 has been set at 18.2%, which includes the fixed contribution surcharge of 0.3% (2017: 18.4% and 0.3%, respectively).

17 DEPRECIATION

	2017	2016
Depreciation of:		
- buildings	2,428	3,297
- plant and equipment	7,746	7,813
- other operating assets	10,976	14,394
- fixtures and fittings	900	1,066
	22,050	26,570
Release from:		
- investment grants equalisation account	-2,849	-3,208
Total	19,201	23,362

In 2017, the depreciation expense decreased by approximately EUR 5 million due to the deconsolidation of TNO Bedrijven BV.

18 OTHER OPERATING EXPENSES

	2017	2016
Accommodation costs	35,803	41,587
Costs of materials	3,165	4,932
Use of operating assets	11,541	14,157
General administrative expenses	24,466	23,958
Outsourced work	7,469	10,058
Changes in provisions	-821	-932
Other expenses	5,921	4,667
Contributions paid	1,432	1,170
Total	88,976	99,597

In 2017, the other operating expenses decreased by approximately EUR 15 million due to the deconsolidation of TNO Bedrijven BV.

19 FINANCE INCOME AND EXPENSES

	2017	2016
Interest income	248	460
Interest expenses	-640	-950
Value adjustment of (hedging of) loans	-	2,300
Exchange differences	-207	-38
Total	-599	1,772

20 CORPORATION TAX

	2017	2016
Tax expense		
Current financial year	-785	5,413
Previous financial year	272	
Deferred tax asset		
Temporary differences arisen in current financial year	-466	-5,538
Total	-979	-125

When TNO first became liable for corporation tax, the opening tax balance sheet was prepared on the basis of the applicable tax accounting policies. As at year-end 2016, deferred tax assets were recognised for differences between the carrying amounts for financial reporting purposes and tax bases of assets and liabilities. The valuation of the deferred tax assets was reviewed in 2017 and this item is now stated at EUR 6.2 million (2016: EUR 5.5 million).

21 SHARE OF INCOME (LOSS) OF PARTICIPATING INTERESTS

	2017	2016
Participating interests:		
- Non-consolidated participating interests	3,413	1,442
- Disposal of participating interests	57,423	-11,765
Total	60,836	-10,323

22 AUDITOR'S FEES

The following fees of KPMG Accountants N.V. were charged to TNO, its subsidiaries and other consolidated companies as referred to in Section 2:382a of the Dutch Civil Code.

	2017	2016
Audit of the financial statements	227	497
Other audit engagements	305	370
Advisory services	114	11
Total	646	878

The amounts for 2017 differ from those for 2016 due to the deconsolidation of various participating interests.

23 SUBSEQUENT EVENTS

Pooling of food research by Wageningen Research and TNO

From 1 January 2018, TNO's Functional Ingredients research group has transferred to the Food & Biobased Research Institute of Wageningen University & Research (WUR).

Pooling of energy research by TNO and ECN

On 30 September 2016, the Council of Ministers approved the proposal by Mr Kamp, the then Minister of Education, to pool the research into sustainable energy conducted by TNO and ECN. To this end, a new research centre, the Energy Research Centre of the Netherlands, will be established, which will fall under the managerial and legal responsibility of TNO. The new research centre will start from 1 April 2018. The contract was signed on 19 February 2018.

Sale of property

In mid-January 2018, TNO sold the property at its location in Eindhoven. The sale of this property is expected to make a positive contribution to the result for 2018.

BALANCE SHEET OF TNO AS AT 31 DECEMBER 2017

(in thousands of euros)

after profit appropriation

		31/12/2017	31/12/2016
Fixed assets			
Property, plant and equipment	1	173,670	152,520
Financial assets	2	93,475	38,811
		267,145	191,331
Current assets			
Inventories		653	583
Receivables	3	63,583	57,832
Cash and cash equivalents		95,322	129,700
		159,558	188,115
Total		426,703	379,446
Equity			
General reserve		193,447	113,128
Statutory reserve		16,441	14,386
Special reserves		39,695	63,754
		249,583	191,268
Investment grants equalisation account		19,758	24,803
Provisions	4	6,461	7,493
Long-term liabilities	5	5,264	2,549
Current liabilities	6	145,637	153,333
Total		426,703	379,446

INCOME STATEMENT OF TNO FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of euros)

		2017	2016
Domestic and international contract revenue		174,128	179,971
Revenue from government contracts		74,990	74,449
Market revenue		249,118	254,420
Government funding		176,493	176,257
Revenue	7	425,611	430,677
Other operating income		17,499	22,505
Total operating income		443,110	453,182
Direct project costs		-65,644	-70,508
Personnel expenses	8	-281,316	-266,885
Depreciation		-17,168	-16,693
Other operating expenses		-79,407	-81,394
Total operating expenses		-443,535	-435,480
Operating profit (loss)		-425	17,702
Finance income and expenses	9	-30	307
Profit (loss) from ordinary activities before tax		-455	18,009
Corporation tax	10	976	630
Share of profit (loss) of participating interests		57,794	-4,483
Net profit (loss)		58,315	14,156

CASH FLOW STATEMENT OF TNO FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of euros)

CASH FLOW STATEMENT OF TNO

		2017	2016
Operating profit (loss)	-425	17,702	
Depreciation	17,168	16,693	
Change in provisions	-1,032	-11,003	
Change in working capital, excl. cash and cash equivalents	-7,394	15,396	
Cash flow from business operations	8,317	38,788	
Interest received	206	315	
Interest paid	-280	-8	
Corporation tax	-5,060	-	
Cash flow from operating activities		3,183	39,095
Investments in property, plant and equipment	-54,325	-28,758	
Investments in financial assets	-	-562	
Disposals of property, plant and equipment	10,962	373	
Disposal of participating interests and repayments received	3,087	1,587	
Cash flow from investing activities		-40,276	-27,360
Loans drawn	2,715	2,549	
Cash flow from financing activities		2,715	2,549
Cash flow for financial year		-34,378	14,284
Cash and cash equivalents as at 1 January		129,700	115,416
Cash flow for financial year		-34,378	14,284
Exchange differences		-	-
Cash and cash equivalents as at 31 December		95,322	129,700

ACCOUNTING POLICIES

General

For information on the accounting policies applied in preparing these company financial statements, as well as any explanatory information not included below, please refer to the notes to the consolidated financial statements.

NOTES TO THE BALANCE SHEET OF TNO FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of euros)

1 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment in 2017:

	Land and buildings	Plant and equipment	Other operating assets	Fixtures and fittings	Total
Balance at 31/12/2016					
Cost of acquisition	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
Change in carrying amount					
Investments	3,713	21,108	9,654	2,083	36,558
Disposals	-8,777	-3,967	-413	-1	-13,158
Depreciation	-2,314	-7,742	-9,158	-803	-20,017
Assets under construction and development recognised in financial year	-2,050	-17,821	-2,180	-	-22,051
Assets under construction, new investments in 2017	10,885	21,798	7,064	71	39,818
	1,457	13,376	4,967	1,350	21,150
Balance at 31/12/2017					
Cost of acquisition	167,272	166,415	97,021	12,610	443,318
Accumulated depreciation and impairment	-116,841	-110,980	-74,665	-8,142	-310,628
Assets under construction and development	13,433	14,875	12,601	71	40,980
Carrying amount	63,864	70,310	34,957	4,539	173,670

The depreciation expense presented in the income statement also includes the release from the investments grants equalisation account. Of the carrying amount of property, plant and equipment as at 31 December 2017, EUR 25.5 million (2016: EUR 25.5 million) concerns land and buildings and plant and equipment of which TNO is the sole beneficial owner.

2 FINANCIAL ASSETS

	Group companies	Participating interests	Loans	Total
	Share in equity	Share in equity		
Balance at 31/12/2016	998		37,813	38,811
Changes:				
Investments and loans granted	-	-	-	-
Disposals and repaid loans	-43	-	-3,087	-3,130
Share of profit (loss) of participating interests	57,794	-	-	57,794
Foreign currency translation reserve	-	-	-	-
Balance at 31 December	58,749	-	34,726	93,475

EUR 33.1 million (2016: 35.5 million) of the loans has a term to maturity of more than one year.

3 RECEIVABLES

	31/12/2017	31/12/2016
Contract receivables	45,230	40,000
Receivables from group companies	1,253	5,826
Receivables from participating interests	3,766	58
Deferred tax assets	6,156	5,690
Other receivables	942	560
Prepayments and accrued income	6,236	5,698
Total	63,583	57,832

Of the receivables, EUR 4.9 million (2016: EUR 3.4 million) falls due in more than one year. All items in prepayments and accrued income fall due in less than one year.

Deferred tax assets

	2017	2016
Balance at 1 January	5,690	5,538
Change in difference between tax bases and carrying amounts of PP&E	466	152
Balance at 31 December	6,156	5,690

Deferred tax assets are stated at present value. The present value is calculated based on an interest rate of 2.4% to 2.8% and a term to maturity of 15 to 24 years. The nominal value of the deferred tax assets totals EUR 15.9 million (2016: EUR 8.1 million). Of the deferred tax assets, EUR 4.7 million (2016: 2.9 million) is older than one year.

In view of the increased uncertainties and risks (integral, partial or no liability for corporation tax and profit development for the coming period), the valuation of the deferred tax assets was reviewed as at 31 December 2017 and this item is now stated at EUR 6.2 million.

4 PROVISIONS

	Balance at 31/12/2016	Withdrawn in 2017	Added in 2017	Release in 2017	Balance at 31/12/2017
Employee and post-employment benefits	588	18	33	-	603
Claims	800	-	-	-	800
Restructurings	-	604	2,059	-	1,455
Redundancies	1,933	1,611	729	69	982
Major maintenance	730	2,701	1,971	-	-
Other	3,442	680	156	297	2,621
Total	7,493	5,614	4,948	366	6,461

The provisions include approximately EUR 3.0 million in long-term provisions (2016: EUR 3.5 million).

5 LONG-TERM LIABILITIES

	31/12/2017	31/12/2016
Other loans	5,264	2,549
Total	5,264	2,549

TNO has at its disposal EZ grants from the Netherlands Enterprise Agency.

No security has been furnished. The long-term liabilities are interest-free. EUR 2.7 million (2016: 2.0 million) of the long-term liabilities has a term to maturity of between one and five years. The remainder of the long-term liabilities, amounting to EUR 2.6 million (2016: EUR 0.5 million), has a term to maturity of more than five years.

6 CURRENT LIABILITIES

	31/12/2017	31/12/2016
Payables	24,914	13,833
Amounts owed to groups companies	36	441
Amounts owed to participating interests	578	-
Taxes and social insurance contributions	17,941	23,474
Holiday pay	7,028	6,792
Outstanding leave entitlement	13,838	13,532
Other liabilities	17,347	21,068
Accruals and deferred income	29,989	40,386
Projects in progress	33,966	33,807
Total	145,637	153,333

The other liabilities largely relate to costs accounted for in 2017 for which the settlement will take place in 2018. These current liabilities do not bear interest. Accruals and deferred income largely relate to advances received in respect of specific research projects, as well as accrued government funding. Of the items in accruals and deferred income, EUR 5.4 million (2016: EUR 10 million) falls due in more than one year.

PROJECTS IN PROGRESS

	31/12/2017	31/12/2016
Accumulated costs less provisions for losses and risks	318,170	293,726
Less: accumulated progress billings	-352,136	-327,533
Total projects in progress	-33,966	-33,807
Balance of projects in progress > 0	100,213	83,296
Balance of projects in progress > 0	-134,179	-117,103
Advances received		
Total projects in progress	-33,966	-33,807

NOTES TO THE INCOME STATEMENT OF TNO FOR THE YEAR ENDED 2017

(in thousands of euros)

7 REVENUE

	2017	2016
Contracts with domestic industry	80,993	86,458
Contracts with international organisations	27,600	31,467
Other international contracts	65,535	62,046
Total international contract revenue	93,135	93,513
Government contracts	74,990	74,449
Market revenue	249,118	254,420
Government funding	176,493	176,257
Total	425,611	430,677

8 PERSONNEL EXPENSES

	2017	2016
Wages and salaries	184,060	186,113
Pension costs	22,210	21,190
Other social expenses	24,602	23,885
Other personnel expenses	49,619	46,345
Change in outstanding leave entitlement	306	21
Changes in provisions	519	-10,669
Total	281,316	266,885

In 2017, the average number of employees totalled 2,627 FTEs, of which 8 FTEs were employed outside of the Netherlands (2016: 2,618 FTEs, of which 11 FTEs outside of the Netherlands).

9 FINANCE INCOME AND EXPENSES

	2017	2016
Interest income	343	315
Interest expenses	-373	-8
Total	-30	307

10 CORPORATION TAX

	2017	2016
Tax expense		
Current financial year	-772	4,908
Previous financial year	262	-
Deferred tax liability		
Temporary differences arisen in current financial year	-466	-5,538
Total	-976	-630

When TNO first became liable for corporation tax, the opening tax balance sheet was prepared on the basis of the applicable tax accounting policies. A deferred tax asset is recognised for differences between the carrying amounts for financial reporting purposes and tax bases of assets and liabilities. As the carrying amounts of assets and liabilities for financial reports are lower than their tax bases, deferred tax assets of EUR 6.2 million were recognised as at year-end 2017 (2016: EUR 5.5 million).

The reconciliation between the Dutch nominal tax rate and effective tax rate is as follows:

	2017	2016
Nominal tax rate in the Netherlands	25.0%	25.0%
Non-tax-deductible items	-	2.3%
Effective current tax rate	25.0%	27.3%

The tax loss for 2017 amounted to EUR 3.1 million. This tax loss can be offset against the profit for 2016, resulting in tax income for the year of EUR 0.8 million (25%).

REPORT OF TNO ON COMPLIANCE WITH STANDARDS FOR REMUNERATION (WNT) FOR 2017

The Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (WNT) came into effect on 1 January 2013. This compliance report has been prepared based on the following regulation applicable to TNO: the general maximum remuneration under the WNT (WNT maximum).

The maximum remuneration for TNO in 2017 was EUR 181,000.00. This has been determined on the basis of the Reduction of Maximum Remuneration (WNT) Act (*Wet verlaging bezoldigingsmaximum WNT*), which came into effect on 1 January 2015.

The applicable WNT maximum shown per person or per position is calculated in proportion to the working hours under the employment contract (and for senior officials also the period of service), with the proviso that the employment may not exceed 1.0 FTE for the purposes of this calculation. An exception applies to the Supervisory Board. The WNT maximum for the Chair and the other members of the Supervisory Board is 15% and 10%, respectively, of the applicable general WNT maximum.

REMUNERATION OF SENIOR OFFICIALS Senior officials in Board of Management

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 the Board of Management	Member of the Board of Management	Member of the Board of Management
Period of service in 2017	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Employment in FTEs	1.0	1.0	1.0	1.0
Former senior official?	no	no	no	no
Actual or deemed employment relationship?	yes	yes	yes	yes
If not, worked for more than 6 months within a period of 18 months?				
Remuneration				
Remuneration plus taxable expense allowance	165,715.32	212,667.49	209,952.27	112,745.40
Long-term and post-employment benefits	11,012.52	11,012.52	11,012.52	11,012.52
Total remuneration	176,727.84	223,680.01	220,964.79	123,757.92
Applicable individual maximum remuneration	181,000.00	181,000.00	181,000.00	181,000.00
Reason for exceeding maximum, where applicable: see		1	1	

1. Appointments prior to 1 January 2015 fall under transitional law in accordance with Section 7.3 in conjunction with Section 7.3a of the WNT. Accordingly, the scaling back of their maximum remuneration will start 4 years after 1 January 2015, the effective date of the Reduction of Maximum Remuneration (WNT) Act, so with effect from 1 January 2019.

REPORT OF TNO ON COMPLIANCE WITH STANDARDS FOR REMUNERATION (WNT) FOR 2017

DETAILS FOR 2016

Position(s) in 2016	Member of Supervisory Board (Chair)	Member of Board of Management	Member of Board of Management	Member of Board of Management
Period of service in 2016	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Employment in FTEs	1.0	1.0	1.0	1.0
Remuneration				
Remuneration plus taxable expense allowance	166,024.42	213,701.76	210,279.03	113,428.21
Long-term and post-employment benefits	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

Senior officials in Supervisory Board

Amounts in euros	C.A. Linse	Prof. J.M. Bensing	I.G.C. Faber	I.H.J. Vanden Berghe	J.D. Lamse-Minderhoud	Prof. PPC.C. Verbeek	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
Period 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 - 31/12
Remuneration							
Total remuneration	25,140.00	16,092.00	16,092.00	16,092.00	16,996.00	16,728.00	16,109.00
Applicable individual maximum remuneration	27,150.00	18,100.00	18,100.00	18,100.00	18,100.00	18,100.00	18,100.00

DETAILS FOR 2016

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
Period 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	1/10 - 31/12
Remuneration							
Total remuneration	24,866.00	15,888.00	15,888.00	16,064.00	0.00	18,000.00	3,972.00

REPORT OF TNO ON COMPLIANCE WITH STANDARDS FOR REMUNERATION (WNT) FOR 2017

REMUNERATION OF NON-SENIOR OFFICIALS IN EXCESS OF WNT MAXIMUM (1) The maximum remuneration does not apply to these officials. Disclosure of their remuneration is mandatory, however.

Amounts in euros	Director	Director	Director	Director	Director	Director	Director
Period of service in 2017	1/1 - 30/6	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Employment in FTEs	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Remuneration							
Remuneration plus taxable expense allowance	96,183.75	189,214.90	209,869.56	205,830.69	199,498.59	197,617.08	195,227.17
Long-term and post-employment benefits	5,506.26	11,012.52	11,012.52	11,012.52	11,012.52	11,012.52	11,012.52
Total remuneration	101,690.01	200,227.42	220,882.08	216,843.21	210,511.11	208,629.60	206,239.69
Applicable individual remuneration threshold	90,500.00	181,000.00	181,000.00	181,000.00	181,000.00	181,000.00	181,000.00
Reason for exceeding maximum, where applicable: see	a	a	a	a	a	a	a

a The WNT does not apply to these senior officials. Disclosure of their remuneration is mandatory, however.

DETAILS FOR 2016

Position(s) in 2016	Director	Director	Director	Director	Director	Director	Director
Period of service in 2016	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
Employment in FTEs	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Remuneration							
Remuneration plus taxable expense allowance	236,426.44	158,415.67	197,848.44	196,742.67	195,153.86	193,108.88	188,270.67
Long-term and post-employment benefits	10,576.92	10,576.92	10,576.92	10,576.92	10,576.92	10,576.92	10,576.92
Total remuneration for 2016	247,003.36	168,992.59	208,425.36	207,319.59	205,730.78	203,685.80	198,847.59

REPORT OF TNO ON COMPLIANCE WITH STANDARDS FOR REMUNERATION (WNT) FOR 2017

REMUNERATION OF NON-SENIOR OFFICIALS IN EXCESS OF WNT MAXIMUM (2) The maximum remuneration does not apply to these officials. Disclosure of their remuneration is mandatory, however.

Amounts in euros	Director	Director	Staff manager	Director	Director
Period of service in 2017	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Employment in FTEs	1.0	1.0	0.3	1.0	1.0
Remuneration					
Remuneration plus taxable expense allowance	193,757.36	189,108.89	77,184.95	171,297.09	172,935.67
Long-term and post-employment benefits	11,012.52	11,012.52	3,303.72	11,012.52	11,012.52
Total remuneration	204,769.88	200,121.41	80,488.67	182,309.61	183,948.19
Applicable individual remuneration threshold	181,000.00	181,000.00	54,300.00	181,000.00	181,000.00
Reason for exceeding maximum, where applicable: see	a	a	a	a	a

a The WNT does not apply to these senior officials. Disclosure of their remuneration is mandatory, however.

DETAILS FOR 2016

Position(s) in 2016	Director	Director	Staff manager	Director	Director
Period of service in 2016	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	9/5 - 31/12
Employment in FTEs	1.0	1.0	0.3	1.0	1.0
Remuneration					
Remuneration plus taxable expense allowance	189,147.24	178,229.24	71,805.36	160,765.83	101,863.21
Long-term and post-employment benefits	10,576.92	10,576.92	3,173.04	10,576.92	6,850.96
Total remuneration for 2016	199,724.16	188,806.16	74,978.40	171,342.75	108,714.17

DETAILS OF PARTICIPATING INTERESTS

AS AT YEAR-END 2017, TNO HAD DIRECT PARTICIPATING INTERESTS IN THE FOLLOWING ENTITIES

Name	Registered office	%
TNO International Holding BV (formerly TNO International Agencies BV)	Delft	100%
TNO Affiliates Holding BV	Delft	100%
– TNO Heimolen BV	Bergen op Zoom	100%
– TNO Powertrain Test Services BV	Delft	100%
TNO Tech Transfer Holding BV (formerly TNO Companies Holding BV)	Delft	100%

THE FOLLOWING ENTITIES ARE NOT CONSOLIDATED

Name	Registered office	%
Yes!Delft BV	Delft	20%
NearField Instruments BV	Delft	31%
Bibo Innovations BV	Maastricht	28%
Tiledmedia BV	Rotterdam	7%
Innovation Industries Fund UA	Enschede	2%
FIRST DUTCH INNOVATIONS BV (formerly TNO Bedrijven BV)	Delft	45%
– First Dutch Advisory BV	Delft	100%
– FDI Deelnemingen BV (formerly TNO Deelnemingen BV)	Delft	100%
– Prime Vision BV	Delft	40%
– 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%
– APP Beheer BV	Bergen op Zoom	30%
– Aerospace Propulsion Products BV (APP)	Hoogerheide	100%
– APP Onroerend Goed BV	Klundert	100%
– 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	72%
– Efectis UK/Ireland Ltd.	Newtonabbey, UK	100%
– CTICM Middle East	Beirut, Lebanon	18%
– Noria Fibre Technologies BV	Delft	14%
– ProQares BV	Rijswijk	100%
– ProQares USA Inc.	Washington, D.C., USA	100%
– Triskelion BV	Zeist	100%

› DETAILS OF PARTICIPATING INTERESTS

THE FOLLOWING ENTITIES ARE NOT CONSOLIDATED

Name	Registered office	%
- Celsian Glass & Solar BV	Eindhoven	100%
- Endures BV	Delft	100%
- Innoser Laboratories BV	Leiden	50%
- FDI TECHNOSTARTERS BV (formerly TNO Technostarters BV)	Delft	100%
- gnTel BV	Groningen	33%
- gnTel GmbH	Düsseldorf, Germany	100%
- Noord Tech Venture CV	Groningen	3%
- DUCARES BV	Zeist	100%
- Dariuz BV	Eindhoven	29%
- BATAVIA Biosciences BV	Leiden	25%
- BATAVIA Holdings Inc	Dover, Delaware, USA	100%
- BATAVIA Biosciences Inc	Woburn, Massachusetts, USA	100%
- Dutcheer BV	Delft	100%
- Prime Data BV	Delft	100%
- LDI Systems	Delft	70%
- Cosanta BV	Amstelveen	43%

DETAILS OF PARTICIPATING INTERESTS

DISPOSALS/DISCONTINUED IN 2017

Name	Registered office	%
TNO Bedrijven BV (55% sold on 31/3/2017)	Delft	100%
- TASS International BV (sold on 1/9/2017)	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 Mobility Center BV	Helmond	100%
- TASS International Safety Center BV	Helmond	100%
- Den Haag Centrum voor Strategische Studies BV (sold on 27/12/2017)	The Hague	80%
- SolayTec BV (sold on 28/8/2017)	Eindhoven	27%
- Biodentify BV (sold on 29/8/2017)	Hilversum	44%
- Nmi UK (sold on 30/6/2017)	Bangor, UK	51%
- Diana North America Inc. (liquidated on 31/12/2017)	Delaware, USA	100%

As at year-end 2017, TNO also had branch offices in Singapore, Qatar and Aruba.

Delft, 23 March 2018

To: the Supervisory Board and the Board of Management of de Nederlandse Organisatie voor toegepast-natuurwetenschappelijk onderzoek TNO

REPORT ON THE ACCOMPANYING FINANCIAL STATEMENTS

Our opinion

We have audited the financial statements 2017 (hereafter 'the financial statements') of de Nederlandse Organisatie voor toegepast-natuurwetenschappelijk onderzoek TNO (hereafter 'TNO'), based in Delft.

In our opinion the financial statements give a true and fair view of the financial position of TNO as at 31 December 2017, and of its result for 2017 in accordance with the TNO Guidelines for Financial Reporting of the Ministry of Education, Culture and Science, the supplementary 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 2017;
- 2 the consolidated and company profit and loss account for 2017; 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 TNO Auditing Protocol and the WNT Auditing Protocol. 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 TNO Auditing Protocol. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Management is responsible for the preparation of the other information.

DESCRIPTION OF THE RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

The Board of Management is responsible for the preparation and fair presentation of the financial statements in accordance with the TNO Guidelines for Financial Reporting of the Ministry of Education,

Culture and Science, the supplementary letter dated 21 April 2004 with reference OWB/FO/2004/8195 and the requirements of the WNT. Furthermore, the Board of Management is responsible for such internal control as the Board of Management 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 of Management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Management should prepare the financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate TNO or to cease operations, or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the company'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 of Management;
- 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 the company 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, 23 March 2018

KPMG Accountants N.V.

J.J. Visser RA

STRATEGIC ADVISORY COUNCILS

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- M.G.L.H. Tossings – Ministry of Defence
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- M. Unck – public transport operator RET
- N.J. de Vries

* Mr Keijts died in September 2017.

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- H. Smid – ZonMW
- J.W. Hofstraat – Philips Research

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› 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 innovation
for life