FINANCIAL STATEMENTS 2018

TNO innovation for life

TNO.NL

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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 2018

(in thousands of euros)

after profit appropriation

			31/12/2018		31/12/2017
Fixed assets					
Intangible assets	1	4,415		-	
Property, plant and equipment	2	181,197		177,367	
Financial assets	3	15,252		19,425	
			200,864		**196,792**
Current assets					
Inventories		815		653	
Receivables	4	58,156		63,650	
Cash and cash equivalents	5	223,835		168,229	
			282,806		**232,532**
Total			**483,670**		**429,324**
Group equity					
General reserve	6	210,411		193,447	
Statutory reserve	7	12,549		16,441	
Special reserves	8	26,662		39,695	
			249,622		**249,583**
Minority interest			30		-
Provisions	9		11,527		6,461
Long-term liabilities	10		23,890		25,022
Current liabilities	11		198,601		148,258
Total			**483,670**		**429,324**

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of euros)

			2018		2017
Revenue	12	482,986		461,387	
Other operating income	13	21,928		15,966	
Total operating income			**504,914**		**477,353**
Direct project costs	14	-78,625		-68,509	
Personnel expenses	15	-312,921		-301,423	
Amortisation		-360		-2,073	
Depreciation	16	-19,229		-19,201	
Other operating expenses	17	-88,094		-88,976	
Total operating expenses			**-499,229**		**-480,182**
Operating profit (loss)			**5,685**		**-2,829**
Finance income and expenses	18		-274		-599
Profit (loss) from ordinary activities before tax			**5,411**		**-3,428**
Corporation tax	19		-1,527		979
Share of profit (loss) of participating interests (after tax)	20		-3,892		60,836
Profit (loss) from ordinary activities after tax			**-8**		**58,387**
Minority interest			47		-72
Net profit (loss)			**39**		**58,315**
Profit appropriation					
Net profit (loss)			**39**		**58,315**
Addition to:					
- special reserve for civil operating risks		-2,585		-	
- special reserve for defence operating risks		-		-	
- statutory reserve		-		-2,055	
- special reserve for construction of new defence buildings		-3,124		-3,061	
			-5,709		-5,116
Withdrawal from:					
- special reserve for civil operating risks		2,585		-	
- special reserve for defence operating risks		-		-	
- statutory reserve		3,892		-	
- special reserve for construction of new defence buildings		16,157		27,120	
			22,634		27,120
Profit (loss) after changes in special reserves			**16,964**		**80,319**
Change in general reserve			-16,964		-80,319
			-		-

CONSOLIDATED CASH FLOW STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT

		2018		2017
Operating profit (loss)	5,685		-2,829	
Amortisation and depreciation	19,589		21,274	
Gain (loss) on disposal of fixed assets	-5,817		-901	
Change in provisions	5,066		-199	
Change in working capital, excl. cash and cash equivalents	58,797		-6,797	
Cash flow from business operations	**83,320**		**10,548**	
Interest received	253		248	
Interest paid	-526		-754	
Corporation tax	-2,780		-5,060	
Cash flow from operating activities		**80,267**		**4,982**
Investments in intangible assets	33		-4,423	
Investments in property, plant and equipment	-40,416		-52,883	
Investments in financial assets	1,587		266	
Investments in acquisitions	-8,900		-	
Disposals of property, plant and equipment	21,079		11,863	
Disposal of participating interests	-		77,175	
Repayments received	617		870	
Cash flow from investing activities		**-26,000**		**32,868**
Loans drawn	1,456		2,715	
Repayments on loans	- 117		-327	
Cash flow from financing activities		**1,339**		**2,388**
Cash flow for financial year		**55,606**		**40,238**
Cash and cash equivalents as at 1 January		168,229		149,110
Cash flow for financial year		55,606		40,238
Deconsolidations / consolidations		-		-21,119
Cash and cash equivalents as at 31 December		**223,835**		**168,229**

STATEMENT OF COMPREHENSIVE INCOME

		2018		2017
Consolidated net profit (loss) after tax		39		58,315
Comprehensive income		**39**		**58,315**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

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 issued by the Ministry 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 Ministry of Education, Culture and Science by means of the letter dated 21 February 2014 with reference OWB/FO/2004/8195 exempts TNO from the provisions of Dutch Accounting Standard 271 'Employee benefits'. This specifically means that the provisions around pensions have been declared inapplicable and, furthermore, that TNO does not recognise a provision for long-service awards, but does recognise provisions for holiday pay and outstanding holiday entitlements.

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 2017 have been reclassified to improve comparability with the figures for 2018.
These financial statements have been prepared based on the going concern assumption.

1.2 ACCOUNTING POLICIES

Unless stated otherwise, assets and liabilities are stated at historical cost.

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 of 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 where TNO has a controlling interest or can in some other way exercise significant influence over the entity's operational and financial policy. In assessing whether TNO can exercise significant influence over the entity's operational and financial policy, financial instruments containing voting rights that have economic significance are taken into account.
Interests held exclusively with a view to resale 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 prepared in accordance with 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 at 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 at the reporting date. Income and expenses of foreign operations are translated into euros at the average exchange rate for the reporting period, which is 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 reserve for translation differences 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 are initially recognised at fair value, which includes the share premium or discount and directly attributable transaction costs. If subsequent to initial their recognition, instruments are not measured at fair value through profit or loss, then any directly attributable transaction costs are included in the initial measurement.

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 initially recognised at fair value. Subsequent to initial recognition, they are measured at amortised cost.

Derivatives

Derivatives are stated at cost or lower market value, except if hedge accounting under the 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.
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.

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.

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 third 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. 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
Items of property, plant and equipment intended for TNO's own use are stated at cost of acquisition or, if they have been constructed by TNO itself, at cost of manufacture, less accumulated depreciation and any accumulated impairment losses and plus any costs incurred to bring the asset to its ultimate location . No interest expenses have been included in the cost of acquisition of items of property, plant and equipment. Any expenditures relating to items of property, plant and equipment that are made subsequent to their initial recognition and which meet the capitalisation criteria are included in the cost of the relevant item of property, plant and equipment.

Depreciation is calculated as a percentage of the cost of acquisition according to the straight-line method on the basis of the asset's useful life. Land, assets under construction and prepayments on assets are not depreciated. When changes occur with respect to the expected depreciation method, useful life and/or residual value, such changes are accounted for as a change in estimates.

When costs are incurred due to an obligation relating to the dismantling and removal of an asset and the restoration of the site where the asset is located, and this obligation is the result of the fact that TNO has put the asset in place on the site, these restoration costs are included in the carrying amount of the asset and a provision for the same amount is recognised simultaneously. Decommissioned items of property, plant and equipment are measured at their carrying amount or lower fair value less costs to sell. Items of property, plant and equipment are derecognised following their disposal or if no future economic benefits are expected to arise from their use or disposal. The income or expense arising from the disposal is recognised in the income statement.

1.8 FINANCIAL ASSETS
Non-consolidated participating interests where TNO can exercise significant influence over the entity's operational and financial policy are measured according to the equity method. In assessing whether TNO can exercise significant influence over the entity's operational and financial policy, financial instruments containing voting rights that have economic significance are taken into account. In accordance with the equity method, the participating interests are recognised in the balance sheet at the group's share of the net asset value of these entities. Under the equity method, the following is added to the net asset value of the group's participating interests in these entities: the group's share of the profit or loss and direct changes in the equity of these entities from the date of their acquisition, measured in accordance with the accounting policies described in these financial statements, less the group's share of the dividends paid by these entities. The group's share of the profits or losses of these entities is recognised in the income statement under 'Share or profit (loss) of participating interests'. Where TNO cannot effect the unlimited payment of dividends to TNO in respect of profits of these entities, TNO's share of these profits is added to a statutory reserve. The group's share of the direct increases and decreases in the equity of the entities in which it has a participating interest is also recognised in this statutory reserve.
Following the application of the equity method, the group determines whether it needs to recognise impairment losses for any if its participating interests. As at each balance sheet date, the group assesses whether there are objective indications that a participating interest may have been impaired. If that is the case, the group recognises an impairment loss for the amount by which the carrying amount of the participating interest exceeds its recoverable amount. This impairment loss is recognised in the income statement.

If the value of a participating interest according to the equity method has become nil, this method is no longer applied and the participating interest continues to be measured at nil as long as the circumstances do not change.
To this end, any other long-term interests of the group in the entity in which it has a participating interests that effectively qualify as a part of the group's net investment are also included in the measurement. A provision is recognised if and to the extent that the group guarantees the debts of the entity in which it has a participating interest or has a constructive obligation to enable the entity to pay its debts.

Any share of the entity's profit subsequently acquired is recognised only if and to the extent that the group's cumulative unrecognised share of the entity's loss has been made good.

Participating interests where no significant influence can be exercised over the entity's operational and financial policy are measured at cost of acquisition less any impairment losses. Dividends qualify as profit and are recognised under finance income and expenses.
Profits or losses on transactions with and between entities in which the group has a non-consolidated participating interest measured at net asset value are recognised proportionally. Profits or losses on transactions with and between entities in which the group has a non-consolidated participating interest measured at cost are recognised in full, except if they have in effect not been realised.

Loans to entities in which the group has a non-consolidated participating interest 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

As at each balance sheet date, the group assesses whether a non-financial asset or a group of non-financial assets may have been impaired. At each balance sheet date, the group assesses whether there are indications that a fixed asset may have been impaired. If there are such indications, the recoverable amount of the asset is determined. If it is not possible to determine the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

An impairment loss exists when the carrying amount of an asset exceeds its recoverable amount; the recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. An impairment loss is accounted for by recognising it directly in the income statement as an expense and simultaneously reducing the carrying amount of the relevant asset.

The asset's fair value less costs to sell is determined initially on the basis of a binding sales agreement. If there is no such agreement but a similar asset is traded in an active market, the fair value less costs to sell is determined based on the market price in this active market, which is usually the current bid price.
If there is no such active market, the fair value less costs to sell is determined based on generally accepted valuation models. The results of these models are verified on the basis of a multiple of the profit, quoted prices of listed companies and other available fair value indicators.
The costs to be deducted in determining the fair value less costs to sell are based on the estimated costs that are directly attributable to the sale or which are necessary to realise the sale.

To determine the value in use, the future net cash flows that would be derived from the continued use of the asset or cash-generating unit are estimated. These cash flows are then discounted using a pre-tax discount rate that reflects the time value of money on the basis of both the market expectations and the specific risks for the asset. The discount rate does not reflect any risks which have already been taken into account in determining the future cash flows.

As at each balance sheet date, the group assesses whether are indications that an impairment loss recognised previously for a fixed asset may no longer exist or may have decreased. If there are such indications, the recoverable amount of the asset or the cash-generating unit to which the asset belongs is determined.
A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised.

If it is determined that a previously recognised impairment loss no longer exists or has decreased, the increased carrying amount of the relevant asset attributable to the reversal of the impairment loss will not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset. An impairment loss recognised for goodwill is not reversed.

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. Expenditures related to project costs that will lead to the completion of required deliverables after the balance sheet date are capitalised 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.

Cash and cash equivalents denominated in foreign currency are translated at the balance sheet into the relevant functional currency at the exchange rate applying at 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 the income statement as finance income or expenses.

Statutory reserve

The statutory reserve concerns intangible assets and non-distributable profits from participating interests in group companies measured at 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 expenditures 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 MINORTY INTEREST

The minority interest concerns the minority interest of third parties in entities in which TNO has a consolidated participating interest measured at net asset value. The minority interest is measured in accordance with TNO's accounting policies.

1.16 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
- if it is probable that an outflow of economic benefits will be required to settle the obligation.

Unless stated otherwise, provisions are stated at present value, which is determined by using the relevant discount rate that reflects the current market interest rate.

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.
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.

1.17 EMPLOYEE BENEFITS/PENSIONS

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

An order issued by the Ministry of Education, Culture and Science exempts TNO from the provisions of Dutch Accounting Standard 271 'Employee benefits'. The basic 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 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 pension the pension fund, the pension agreement with the employees and other (explicit or implicit) commitments made to employees.

The provision is stated at the best estimate of the present value of the amounts expected to be required to settle the obligations at the balance sheet date.

1.18 LONG-TERM LIABILITIES

Grants provided by the government or third parties to compensate TNO for the 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.

1.19 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; and
– 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 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 it is reasonably certain 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 OTHER OPERATING INCOME

If the result of a transaction relating to the performance of services can be reliably estimated and it is probable that revenue will be received for these services, revenue is recognised pro rata to the stage of completion of these services. Licensing revenues are recognised in the income statement according to the attribution principle in accordance with the content of the agreement, provided that the amount of the revenues can be reliably determined and their receipt is probable.

1.23 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 entities in which it has a participating interest, determined on the basis of the group's accounting policies.
Gains or losses on transactions are not recognised in the consolidated income statement if they cannot be deemed to have been realised.
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.

1.24 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.

1.25 CORPORATION TAX/DEFERRED TAX ASSETS

Since 2016, TNO is liable for corporation tax. The calculation of the current and deferred corporation tax for 2018 has once again 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. The opening tax balance sheet as at 1 January 2016 has not been definitively determined yet.
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 in the income statement, except it relates to items recognised directly in equity, in which case it is recognised in equity.
Current tax is the expected tax payable (recoverable) in 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.

Deferred tax assets are recognised for deductible temporary differences, unused tax loss carryforwards 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.

1.26 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.

1.27 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 quote 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.

1.28 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, projects in progress, deferred tax assets and provisions (including for claims and onerous contracts).

1.29 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 activities, 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 2018

(in thousands of euros)

1 INTANGIBLE ASSETS

Changes in intangible assets in 2018:

	Goodwill	Software	Total
Balance at 31/12/2017			
Cost of acquisition	-	-	-
Accumulated amortisation and impairment	-	-	-
Carrying amount	**-**	**-**	**-**
Change in carrying amount			
Investments	-	11	11
Obtained through acquisition	4,705	59	4,764
Disposals	-	-	-
Amortisation	-353	-7	-360
	4,352	**63**	**4,415**
Balance at 31/12/2018			
Cost of acquisition	4,705	109	4,814
Accumulated amortisation and impairment	-353	-46	-399
Carrying amount	**4,352**	**63**	**4,415**

On 1 April 2018, TNO acquired the energy research activities of Stichting Energieonderzoek Centrum Nederland (NRG) for a purchase price of EUR 9.9 million plus EUR 2.5 million for the working capital. On 1 October 2018, the activities of TNO's Energy Engineering & Environment unit were sold back to NRG for a price of EUR 1.0 million plus EUR 0.9 million for the working capital.
The acquisition was measured according to the purchase accounting method. The fair value of the net assets and liabilities acquired, excluding the working capital, amounted to EUR 4.2 million. The goodwill amounted to EUR 4.7 million and will be amortised over a period of 10 years.
The carrying amount of the acquired working capital corresponds to its fair value.

2 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment in 2018:

	Land and buildings	Plant and equipment	Other operating assets	Fixtures and fittings	Total
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**
Change in carrying amount					
Investments	-	7,205	20,069	820	28,094
Obtained through acquisition	4	1,392	1,974	19	3,389
Disposals	-12,834	-465	-536	-100	-13,935
Depreciation	-1,665	-9,037	-10,315	-809	-21,826
Assets under construction and development recognised in financial year	-	-6,802	-8,395	-71	-15,268
Disposal of assets under construction	-	-	-1,318	-	-1,318
Assets under construction, new investments in 2018	6,738	11,867	5,981	108	24,694
	-7,757	**4,160**	**7,460**	**-33**	**3,830**
Balance at 31/12/2018					
Cost of acquisition	132,081	140,022	132,589	9,628	414,320
Accumulated depreciation and impairment	-94,445	-85,492	-97,043	-5,231	-282,211
Assets under construction and development	20,171	19,940	8,869	108	49,088
Carrying amount	**57,807**	**74,470**	**44,415**	**4,505**	**181,197**

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 2018, EUR 27.0 million (2017: EUR 25.5 million) concerns land and buildings and plant and equipment of which TNO is the sole beneficial owner.
This relates to investments in rented premises.

Applied depreciation periods in years

	2018	2017
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		
Balance at 31/12/2017	17,236	2,189	19,425
Changes:			
Investments and loans granted	336	-	336
Disposals and repayments	-	-617	-617
Value changes	-	-	-
Share of profit (loss) of participating interests	-3,892	-	-3,892
Balance at 31/12/2018	**13,680**	**1,572**	**15,252**

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

4 RECEIVABLES

	31/12/2018		31/12/2017
Contract receivables	41,589		45,292
Receivables from participating interests	1,523		5,019
Deferred tax assets	5,114		6,156
Other receivables	3,190		947
Prepayments and accrued income	6,740		6,236
Total	**58,156**		**63,650**

Of the receivables, EUR 4.7 million (2017: EUR 4.9 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

	2018	2017
Balance at 1 January	6,156	5,690
Change in difference between tax bases and carrying amounts of PP&E	-1,042	466
Balance as at 31 December	**5,114**	**6,156**

Deferred tax assets are stated at present value. The present value is calculated based on an interest rate of 2.6%. The nominal value of the deferred tax assets totals EUR 11.1 million (2017: EUR 15.9 million). Of the deferred tax assets, EUR 4.4 million (2017: EUR 4.7 million) is older than one year. The present value of the deferred tax assets totals EUR 8.5 million (2017: EUR 10.8 million).

The average term to maturity of the deferred tax assets is 16 years.

As TNO has no profit objective and there is insufficient certainty that all deferred tax assets will be utilised, the valuation of the deferred tax assets was reviewed as at 31 December 2018, based on which they have been measured at EUR 5.1 million.

5 CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents as at year-end 2018 exceeds the special reserve for the construction of new defence buildings (see note 8).

6 GENERAL RESERVE

	2018	2017
Balance at 1 January	193,447	113,128
Profit appropriation	16,964	80,319
Balance as at 31 December	**210,411**	**193,447**

7 STATUTORY RESERVE

	2018	2017
Balance at 1 January	16,441	14,386
Change	-3,892	2,055
Balance as at 31 December	**12,549**	**16,441**

The change in statutory reserve concerns non-distributable profits from participating interests measured at net asset value.

8 SPECIAL RESERVES

	Balance at 31/12/2017	Withdrawn in 2018	Added in 2018	Balance at 31/12/2018
Civil operating risks	9,075	2,585	2,585	9,075
Construction of new defence buildings	30,620	16,157	3,124	17,587
Total	**39,695**	**18,742**	**5,709**	**26,662**

9 PROVISIONS

	Balance at 31/12/2017	Withdrawn in 2018	Added in 2018	Release in 2018	Balance at 31/12/2018
Employee and post-employment benefits	603	64	44	20	563
Claims	800	-	-	-	800
Restructurings	1,455	3,003	4,526	84	2,894
Redundancies	982	990	1,169	132	1,029
Major maintenance	-	1,602	3,184	-	1,582
Other	2,621	341	2,480	101	4,659
Total	**6,461**	**6,000**	**11,403**	**337**	**11,527**

Of the other provisions, EUR 4.5 million (2017: EUR 2.4 million) concerns onerous tenancy contracts. The provisions include approximately EUR 6.6 million (2017: EUR 3.0 million) in long-term provisions.
Further information about the provisions can be found under the heading ‘Accounting policies’ in the notes to the consolidated financial statements 2018.

10 LONG-TERM LIABILITIES

	31/12/2018	31/12/2017
Investment grants equalisation account	17,170	19,758
Other loans	6,720	5,264
Total	**23,890**	**25,022**

INVESTMENT GRANTS EQUALISATION ACCOUNT

	2018	2017
Balance at 1 January	19,758	24,803
Release in connection with disposals	-	-2,196
Grants awarded	9	-
	19,767	**22,607**
Release added to profit (loss) for the year	-2,597	-2,849
Balance as at 31 December	**17,170**	**19,758**

Of the investment grants equalisation account, EUR 2.5 million (2017: EUR 2.6 million) has a term to maturity of less than one year and EUR 5.9 million (2017: EUR 7.3 million) has a term to maturity of more than five years.

Of the other loans, EUR 3.8 million (2017: EUR 2.7 million) has a term to maturity of between one and five years. The remainder of the other loans, amounting to EUR 2.9 million (2017: EUR 2.6 million), has a term to maturity of more than five years. No security has been furnished. The other loans are interest-free.

11 CURRENT LIABILITIES

	31/12/2018	31/12/2017
Payables	17,661	25,308
Amounts owed to participating interests	192	614
Taxes and social insurance contributions	17,089	17,921
Pensions	105	12
Holiday pay	8,049	7,028
Outstanding leave entitlement	14,643	13,838
Other liabilities	21,291	19,579
Accruals and deferred income	80,182	29,989
Projects in progress	39,389	33,969
Total	**198,601**	**148,258**

The other liabilities largely relate to costs accounted for in 2018 for which the settlement will take place in 2019. 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. The accruals and deferred income recognised in 2018 include EUR 31.6 million in investment grants that will lead to expenditures in 2019, as well as EUR 11.0 million in advances received for research projects that will be transferred to third parties in 2019. Of the items in accruals and deferred income, EUR 6.5 million (2017: EUR 5.4 million) falls due in more than one year.

Projects in progress	31/12/2018		31/12/2017
Accumulated costs less provisions for losses and risks	261,166		318,170
Less: accumulated progress billings	-300,555		-352,139
Total projects in progress	**-39,389**		**-33,969**
Balance of projects in progress > 0	122,958		100,213
Balance of projects in progress < 0	-162,347		-134,182
Advances received			
Total projects in progress	**-39,389**		**-33,969**

The item ‘Projects in progress’ includes a provision for losses and risks of EUR 5.5 million (2017: EUR 3.9 million).

FINANCIAL INSTRUMENTS

General

As part of its ordinary activities, TNO uses various financial instruments that expose TNO 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 and cash and cash equivalents. The interest rate risk for the cash and cash equivalents concerns the risk of fluctuations in the fair value of the future cash flows of financial instruments due to changes in market interest rates. As the current cash position does not bear fixed interest at fixed rates, TNO is not exposed to interest rate risk on this position.
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. TNO has spread its risk over various banks.

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. TNO has remeasured all individual contracts by recalculating from the price at the date of inception to the price at the balance sheet date. The hedged position at the balance sheet date (EUR 7.9 million) and at the date of inception (EUR 7.6 million) are included in the notes.
The outstanding forward exchange contracts in US dollars (USD) have a market value of EUR 7.9 million and a contract value of EUR 7.6 million (2017: EUR 6.4 million and EUR 6.9 million, respectively). The outstanding forward exchange contracts in pounds sterling (GBP) have a market value of EUR 1.1 million and a contract value of EUR 1.1 million (2017: EUR 0.4 million and EUR 0.4 million, respectively).

Off-balance sheet assets and liabilities

As at 31 December 2018, the total operating lease liabilities for the period from 2019 to 2023 inclusive amounted to approximately EUR 3.4 million (2017: EUR 3.5 million), of which EUR 1.6 million falls due in 2019 (2018: 1.5 million) and EUR 1.8 million (2017: EUR 2.0) falls due between one and five years. As at year-end 2018, the operating lease payments totalled EUR 1.8 million (2017: EUR 2.4 million).

Rental obligations totalled EUR 55.9 million (2017: EUR 63.1 million), of which EUR 12.1 million (2017: EUR 11.4 million) falls due within one year, EUR 33.6 million (2017: EUR 35.2 million) in between one and five years, and EUR 10.2 million (2017: EUR 16.5 million) in more than five years. As at year-end 2018, the rental payments totalled EUR 12.5 million (2017: EUR 11.8 million).

As at 31 December 2018, investment obligations in respect of property, plant and equipment totalled EUR 3.2 million (2017: EUR 4.9 million).

Bank guarantees issued amounted to EUR 0.3 million (2017: EUR 1.7 million). The total credit facility amounted to EUR 13.3 million (2017: EUR 13.3 million) and the total bank guarantee facility amounted to EUR 11.0 million (2017: EUR 11.0 million).

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

– negative pledge/pari passu and cross-default covenant;
– joint account and joint liability agreement, security type: current account plus one party.

As at year-end 2018, the sureties furnished totalled nil (2017: nil).
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 2018

(in thousands of euros)

12 REVENUE

	2018	2017
Contract revenue	266,663	284,894
Government funding	216,323	176,493
Total	**482,986**	**461,387**

Revenue includes the change in projects in progress of EUR -5.4 million (2017: EUR 4.5 million).

CONTRACT REVENUE

Contract revenue breaks down by category as follows:

		2018		2017
Domestic contract revenue				
Government	89,307		78,167	
Industry	83,114		87,371	
Total domestic contract revenue		**172,421**		**165,538**
International contract revenue				
International organisations	24,912		28,164	
Other	69,330		91,192	
Total international contract revenue		**94,242**		**119,356**
Total		**266,663**		**284,894**

13 OTHER OPERATING INCOME

	2018	2017
Gain (loss) on disposals of property, plant and equipment	5,817	901
Other income	16,111	15,065
Total	**21,928**	**15,966**

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

14 DIRECT PROJECT COSTS

	2018	2017
Accommodation and energy costs	987	218
Materials	19,014	16,595
Use of operating assets	2,679	3,156
General administrative expenses	6,352	5,929
Outsourced work	48,527	42,045
Other expenses	1,066	566
Total	**78,625**	**68,509**

Direct project costs are defined as the tangible costs (including costs of outsourced work) that are directly attributable to a project. The general administrative expenses include approximately EUR 5.3 million (2017: EUR 4.9 million) in directly attributable travel and overnight accommodation expenses.

15 PERSONNEL EXPENSES

	2018	2017
Wages and salaries	202,688	199,001
Pension costs	24,215	23,793
Other social expenses	28,250	26,624
Other personnel expenses	56,469	50,975
Change in outstanding leave entitlement	-147	306
Utilisation and release of provisions:		
- employee and post-employment benefits	-84	-18
- redundancies	-1,122	-1,680
- restructurings	-3,087	-664
	307,182	**298,337**
Addition to provisions:		
- employee and post-employment benefits	44	33
- restructurings	4,526	2,324
- redundancies	1,169	729
Total	**312,921**	**301,423**

In 2018, the average number of employees totalled 2,865 FTEs, of which 28 FTEs were employed outside of the Netherlands (2017: 2,999 FTEs, of which 35.3 FTEs outside of the Netherlands).The remuneration, including pension contributions, of the members of TNO's Board of Management totalled EUR 0.8 million (2017: EUR 0.8 million).
The remuneration of the members of TNO's Supervisory Board totalled EUR 0.1 million (2017: EUR 0.1 million).

As at 31 December 2018, the preliminary policy 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 TNO has granted 0.47% indexation with effect from 1 January 2019.
The total pension contribution for 2019 has been set at 18.2%, which includes the fixed contribution surcharge of 0.3% (2018: 18.2% and 0.3%, respectively).

16 DEPRECIATION

	2018	2017
Depreciation of:		
- buildings	1,665	2,428
- plant and equipment	9,037	7,746
- other operating assets	10,315	10,976
- fixtures and fittings	809	900
	21,826	**22,050**
Release from:		
- investment grants equalisation account	-2,597	-2,849
Total	**19,229**	**19,201**

17 OTHER OPERATING EXPENSES

	2018	2017
Accommodation costs	38,065	35,803
Costs of materials	5,138	3,165
Use of operating assets	10,526	11,541
General administrative expenses	21,423	24,466
Outsourced work	7,746	7,469
Changes in provisions	2,038	-821
Other expenses	1,779	5,921
Contributions paid	1,379	1,432
Total	**88,094**	**88,976**

The other operating expenses in 2017 included costs relating to the disposal of the majority interest in TNO Bedrijven.

18 FINANCE INCOME AND EXPENSES

	2018	2017
Interest income	322	248
Interest expenses	-638	-640
Exchange differences	42	-207
Total	**-274**	**-599**

19 CORPORATION TAX

	2018	2017
Tax expense		
Current financial year	629	-785
Previous financial year	-144	272
Deferred tax		
Change in deferred tax assets	1,042	-466
Total	**1,527**	**-979**

When TNO first became liable for corporation tax, the opening tax balance sheet was prepared on the basis of the applicable tax accounting policies. Deferred tax assets are recognised for differences between the tax bases and carrying amounts for financial reporting purposes of assets and liabilities. The valuation of the deferred tax assets was reviewed in 2018 and this item it is now stated at EUR 5.1 million (2017: EUR 6.2 million).

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

	2018	2017
Nominal tax rate in the Netherlands	25.0%	25.0%
Non-tax-deductible items	3.2%	3.6%
Effective current tax rate	**28.2%**	**28.6%**

20 SHARE OF PROFIT (LOSS) OF PARTICIPATING INTERESTS

	2018	2017
Participating interests:		
- Non-consolidated participating interests	-3,892	3,413
- Disposal of participating interests	-	57,423
Total	**-3,892**	**60,836**

The item ‘Disposal of participating interests’ concerns the gain on the disposal of a majority interest in TNO Bedrijven in 2017.

21 AUDITOR’S FEES

The following fees as referred to in Section 2:382a of the Dutch Civil Code were charged to TNO, its subsidiaries and other consolidated companies by Ernst & Young in 2018 and by KPMG Accountants N.V. in 2017.

	2018	2017
Audit of the financial statements	225	227
Other audit engagements	115	305
Advisory services	-	114
Total	**340**	**646**

22 SUBSEQUENT EVENTS

In January 2019, the Dutch Tax and Customs Administration confirmed that TNO is fully liable for corporation tax since 1 January 2016. No other events occurred after the balance sheet date that would require disclosure in these financial statements.

BALANCE SHEET OF TNO AS AT 31 DECEMBER 2018

(in thousands of euros)

after profit appropriation

			31/12/2018		31/12/2017
Fixed assets					
Intangible assets	1	4,352		-	
Property, plant and equipment	2	177,812		173,670	
Financial assets	3	79,983		93,475	
			262,147		**267,145**
Current assets					
Inventories		591		653	
Receivables	4	58,542		63,583	
Cash and cash equivalents		161,146		95,322	
	5		**220,279**		**159,558**
Total			**482,426**		**426,703**
Equity					
General reserve		210,411		193,447	
Statutory reserve		12,549		16,441	
Special reserves		26,662		39,695	
			249,622		**249,583**
Provisions	6		11,527		6,461
Long-term liabilities	7		23,890		25,022
Current liabilities	8		197,387		145,637
Total			**482,426**		**426,703**

INCOME STATEMENT OF TNO FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of euros)

			2018		2017
Domestic and international contract revenue		176,607		174,128	
Revenue from government contracts		89,307		74,990	
Market revenue			265,914		249,118
Government funding			216,323		176,493
Revenue	9		**482,237**		**425,611**
Other operating income			21,660		17,499
Total operating income			**503,897**		**443,110**
Direct project costs		-78,181		-65,644	
Personnel expenses	10	-312,576		-281,316	
Amortisation		-353		-	
Depreciation		-18,855		-17,168	
Other operating expenses		-87,470		-79,407	
Total operating expenses			**-497,435**		**-443,535**
Operating profit (loss)			**6,462**		**-425**
Finance income and expenses	11		-48		-30
Profit (loss) from ordinary activities before tax			**6,414**		**-455**
Corporation tax	12		-1,524		976
Share of profit (loss) of participating interests (after tax)			-4,851		57,794
Net profit (loss)			**39**		**58,315**

CASH FLOW STATEMENT OF TNO FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of euros)

CASH FLOW STATEMENT OF TNO

		2018		2017
Operating profit (loss)	6,462		-425	
Amortisation	353		-	
Depreciation	18,855		17,168	
Gain (loss) on disposal of fixed assets	-5,817		-901	
Change in provisions	5,066		-1,032	
Change in working capital, excl. cash and cash equivalents	60,021		-10,684	
Cash flow from business operations	**84,940**		**4,126**	
Interest received	331		206	
Interest paid	-493		-280	
Corporation tax	-2,780		-5,060	
Cash flow from operating activities		**81,998**		**-1,008**
Investments in intangible assets	103		-	
Investments in property, plant and equipment	-40,336		-51,035	
Investments in financial assets	-		-	
Investments in acquisitions	-8,900		-	
Disposals of property, plant and equipment	21,061		11,863	
Repayments received	10,517		3,087	
Cash flow from investing activities		**-17,555**		**-36,085**
Loans drawn	1,456		2,715	
Repayments on loans	-117		-	
Cash flow from financing activities		**1,339**		**2,715**
Cash flow for financial year		**65,782**		**-34,378**
Cash and cash equivalents as at 1 January		95,322		129,700
Cash flow for financial year		65,782		-34,378
Exchange differences		42		-
Cash and cash equivalents as at 31 December		**161,146**		**95,322**

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 AS AT 31 DECEMBER 2018

(in thousands of euros)

1 INTANGIBLE ASSETS

Changes in intangible assets in 2018:

	Goodwill	Software	Total
Balance at 31/12/2017			
Cost of acquisition	-	-	-
Accumulated amortisation and impairment	-	-	-
Carrying amount	**-**	**-**	**-**
Change in carrying amount			
Investments	-	-	-
Obtained through acquisition	4,705	-	4,705
Disposals	-	-	-
Amortisation	-353	-	-353
	4,352	**-**	**4,352**
Balance at 31/12/2018			
Cost of acquisition	4,705	-	4,705
Accumulated amortisation and impairment	-353	-	-353
Carrying amount	**4,352**	**-**	**4,352**

On 1 April 2018, TNO acquired the energy research activities of Stichting Energieonderzoek Centrum Nederland (NRG) for a purchase price of EUR 9.9 million plus EUR 2.5 million for the working capital. On 1 October 2018, the activities of TNO's Energy Engineering & Environment unit were sold back to NRG for a price of EUR 1.0 million plus EUR 0.9 million for the working capital.
The acquisition was measured according to the purchase accounting method. The fair value of the net assets and liabilities acquired, excluding the working capital, amounted to EUR 4.2 million. The goodwill amounted to EUR 4.7 million and will be amortised over a period of 10 years.
The carrying amount of the acquired working capital corresponds to its fair value.

2 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment in 2018:

	Land and buildings	Plant and equipment	Other operating assets	Fixtures and fittings	Total
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**
Change in carrying amount					
Investments	-	7,205	20,008	820	28,033
Obtained through acquisition	4	1,392	1,974	-	3,370
Disposals	-12,834	-465	-535	-83	-13,917
Depreciation	-1,665	-9,037	-9,941	-809	-21,452
Assets under construction and development recognised in financial year	-	-6,802	-8,395	-71	-15,268
Disposal of assets under construction	-	-	-1,318	-	-1,318
Assets under construction, new investments in 2018	6,738	11,867	5,981	108	24,694
	-7,757	**4,160**	**7,774**	**-35**	**4,142**
Balance at 31/12/2018					
Cost of acquisition	130,381	139,763	129,237	9,624	409,005
Accumulated depreciation and impairment	-94,445	-85,233	-95,375	-5,228	-280,281
Assets under construction and development	20,171	19,940	8,869	108	49,088
Carrying amount	**56,107**	**74,470**	**42,731**	**4,504**	**177,812**

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 2018, EUR 27.0 million (2017: EUR 25.5 million) concerns land and buildings and plant and equipment of which TNO is the sole beneficial owner. This relates to investments in rented premises.

3 FINANCIAL ASSETS

	Group companies	Loans	Total
	Share in equity		
Balance at 31/12/2017	**58,749**	**34,726**	**93,475**
Changes:			
Investments and loans granted	-	1,876	1,876
Disposals and repaid loans	-	-10,517	-10,517
Share of profit (loss) of participating interests	-4,851	-	-4,851
Balance at 31 December 2018	**53,898**	**26,085**	**79,983**

The loans include EU 24.5 million (2017: EUR 32.5 million) in loans granted to group companies.
EUR 24.5 million (2017: 33.1 million) of the loans has a term to maturity of more than one year. The investment in loans of EUR 1.8 million concerns a reclassification from other receivables to long-term loans due to the fact that a short-term loan has been contractually converted to a long-term loan in the financial year. Consequently, this item does not qualify as cash flow and is therefore not included in the cash flow statement.

4 RECEIVABLES

	31/12/2018	31/12/2017
Contract receivables	41,219	45,230
Receivables from group companies	811	1,253
Receivables from participating interests	1,523	3,766
Deferred tax assets	5,114	6,156
Other receivables	3,135	942
Prepayments and accrued income	6,740	6,236
Total	**58,542**	**63,583**

Of the receivables, EUR 4.7 million (2017: EUR 4.9 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

	2018		2017
Balance at 1 January	6,156		5,690
Change in difference between tax bases and carrying amounts of PP&E	-1,042		466
Balance as at 31 December	**5,114**		**6,156**

Deferred tax assets are stated at present value. The present value is calculated based on an interest rate of 2.6%. The nominal value of the deferred tax assets totals EUR 11.1 million (2017: EUR 15.9 million). The present value of the deferred tax assets totals EUR 8.5 million (2017: EUR 10.8 million).
Of the deferred tax assets, EUR 4.4 million (2017: 4.7 million) is older than one year.
As TNO has no profit objective and there is insufficient certainty that all deferred tax assets will be utilised, the valuation of the deferred tax assets was reviewed as at 31 December 2018, based on which they have been measured at EUR 5.1 million.

5 EQUITY

For information on TNO's equity, please refer to the 'Equity' item in the notes to the consolidated financial statements.

6 PROVISIONS

	Balance at 31/12/2017	Withdrawn in 2018	Added in 2018	Release in 2018	Balance at 31/12/2018
Employee and post-employment benefits	603	64	44	20	563
Claims	800	-	-	-	800
Restructurings	1,455	3,003	4,526	84	2,894
Redundancies	982	990	1,169	132	1,029
Major maintenance	-	1,602	3,184	-	1,582
Other	2,621	341	2,480	101	4,659
Total	**6,461**	**6,000**	**11,403**	**337**	**11,527**

Of the other provisions, EUR 4.5 million (2017: EUR 2.4 million) concerns onerous contracts.
The provisions include approximately EUR 6.6 million (2017: EUR 3.0 million) in long-term provisions.

7 LONG-TERM LIABILITIES

	31/12/2018	31/12/2017
Investment grants equalisation account	17,170	19,758
Other loans	6,720	5,264
Total	**23,890**	**25,022**

Of the investment grants equalisation account, EUR 2.5 million (2017: EUR 2.6 million) has a term to maturity of less than one year and EUR 5.9 million (2017: EUR 7.3 million) has a term to maturity of more than five years. No security has been furnished. The other loans are interest-free. Of the other loans, EUR 3.8 million (2017: EUR 2.7 million) has a term to maturity of between one and five years. The remainder of the other loans, amounting to EUR 2.9 million (2017: EUR 2.6 million), has a term to maturity of more than five years.

8 CURRENT LIABILITIES

	31/12/2018	31/12/2017
Payables	17,625	24,914
Amounts owed to groups companies	25	36
Amounts owed to participating interests	192	578
Taxes and social insurance contributions	17,115	17,941
Holiday pay	8,047	7,028
Outstanding leave entitlement	14,643	13,838
Other liabilities	20,169	17,347
Accruals and deferred income	80,182	29,989
Projects in progress	39,389	33,966
Total	**197,387**	**145,637**

The other liabilities largely relate to costs accounted for in 2018 for which the settlement will take place in 2019. 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 5.8 million (2017: EUR 5.4 million) falls due in more than one year.

PROJECTS IN PROGRESS

	31/12/2018	31/12/2017
Accumulated costs less provisions for losses and risks	261,166	318,170
Less: accumulated progress billings	-300,555	-352,136
Total projects in progress	**-39,389**	**-33,966**
Balance of projects in progress > 0	122,958	100,213
Balance of projects in progress < 0	-162,347	-134,179
Advances received		
Total projects in progress	**-39,389**	**-33,966**

The item ‘Projects in progress’ includes a provision for losses and risks of EUR 5.5 million (2017: EUR 3.9 million).

NOTES TO THE INCOME STATEMENT OF TNO FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of euros)

9 REVENUE

		2018		2017
Contracts with domestic industry		82,879		80,993
Contracts with international organisations	24,912		27,600	
Other international contracts	68,816		65,535	
Total international contract revenue		93,728		93,135
Government contracts		89,307		74,990
Market revenue		**265,914**		**249,118**
Government funding		**216,323**		**176,493**
Total		**482,237**		**425,611**

Revenue includes the change in projects in progress of EUR -5.4 million (2017: EUR 4.5 million).

10 PERSONNEL EXPENSES

	2018		2017
Wages and salaries	202,492		184,060
Pension costs	24,215		22,210
Other social expenses	28,202		24,602
Other personnel expenses	56,368		49,619
Change in outstanding leave entitlement	-147		306
Changes in provisions	1,446		519
Total	**312,576**		**281,316**

In 2018, the average number of employees totalled 2,860 FTEs, of which 24 FTEs were employed outside of the Netherlands (2017: 2,627 FTEs, of which 8 FTEs outside of the Netherlands).
The remuneration, including pension contributions, of the members of TNO’s Board of Management totalled EUR 0.8 million (2017: EUR 0.8 million).
The remuneration of the members of TNO’s Supervisory Board totalled EUR 0.1 million (2017: EUR 0.1 million).

11 FINANCE INCOME AND EXPENSES

	2018		2017
Interest income	400		343
Interest expenses	-490		-373
Exchange differences	42		-
Total	**-48**		**-30**

12 CORPORATION TAX

	2018	2017
Tax expense		
Current financial year	626	-772
Previous financial year	-144	262
Deferred tax		
Change in deferred tax assets	1,042	-466
Total	**1,524**	**-976**

When TNO first became liable for corporation tax, the opening tax balance sheet was prepared on the basis of the applicable tax accounting policies. Deferred tax assets are recognised for differences between the tax bases and carrying amounts for financial reporting purposes of assets and liabilities. As the carrying amounts of assets and liabilities for financial reporting are lower than their tax bases, deferred tax assets of EUR 5.1 million have been recognised (2017: EUR 6.2 million).

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

	2018	2017
Nominal tax rate in the Netherlands	25.0%	25.0%
Non-tax-deductible items	-1.2%	189.5%
Effective current tax rate	**23.8%**	**214.5%**

The taxable profit for 2018 amounted to EUR 2.5 million. This taxable profit results in a current tax expense of EUR 0.6 million (i.e. tax rate of 25%).

13 SUBSEQUENT EVENTS

In January 2019, the Dutch Tax and Customs Administration confirmed that TNO is fully liable for corporation tax since 1 January 2016. No other events occurred after the balance sheet date that would require disclosure in these financial statements.

REPORT OF TNO ON COMPLIANCE WITH STANDARDS FOR REMUNERATION (WNT) FOR 2018

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 2018 was EUR 189,000.00. This has been determined on the basis of the Reduction of Maximum Remuneration (WNT) Act (*Wet verlaging bezoldigings-maximum 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
1. 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 2018	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
Actual or deemed employment relationship?	yes	yes	yes	yes
Remuneration				
Remuneration plus taxable expense allowance	175,169.60	219,604.16	204,944.79	112,628.04
Long-term and post-employment benefits	11,098.56	11,098.56	11,098.56	11,098.56
Total remuneration for 2018	**186,268.16**	**230,702.72**	**216,043.35**	**123,726.60**
Applicable individual maximum remuneration	189,000.00	189,000.00	189,000.00	189,000.00
Reason for exceeding, where applicable: see	n/a	1	1	n/a

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.

The identified senior officials in the Board of Management of TNO are not employed as senior management officials at multiple institutions that fall under the WNT (under employment contracts entered into effective from 1 January 2018).

DETAILS FOR 2017

Position(s) in 2017	Member of Supervisory Board (Chair)	Member of Board of Management	Member of Board of Management	Member of 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
Actual or deemed employment relationship?	yes	yes	yes	yes
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 for 2017	**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

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 RA	Prof. P.P.C.C. Verbeek	P.J.M. van Laarhoven	Prof. H. Bijl
Position(s)	Member of Supervisory Supervision (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
Period of service in 2018	1/1 - 31/12	1/1 - 31/8	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12	1/9 - 31/12
Remuneration								
Remuneration plus taxable expense allowance	26,340.00	11,128.00	16,896.00	16,896.00	16,896.00	16,692.00	16,896.00	5,632.00
Total remuneration for 2018	**26,340.00**	**11,128.00**	**16,896.00**	**16,896.00**	**16,896.00**	**16,692.00**	**16,896.00**	**5,632.00**
Applicable individual maximum remuneration	28,350.00	12,600.00	18,900.00	18,900.00	18,900.00	18,900.00	18,900.00	6,300.00

DETAILS FOR 2017

Position(s)	Member of Supervisory Supervision (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 in 2017	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 for 2017	**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

2. TERMINATION BENEFITS AWARDED TO CURRENT AND FORMER SENIOR OFFICIALS

Amounts in euros	Prof. J.T.F. Keurentjes
Position(s) held at termination of employment	Member of Board of Management
Employment in FTEs	1.0
Severance pay	
Agreed termination benefits	75,000.00
Individual WNT maximum	75,000.00
-/- amount paid in excess of statutory maximum that has not been refunded yet	n/a
Total termination benefits awarded	**75,000.00**
of which paid in 2018	0

3. 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
Period of service in 2018	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	0.3	1.0	1.0	1.0	1.0	1.0
Remuneration						
Remuneration plus taxable expense allowance	72,360.64	202,279.96	207,724.23	210,449.76	202,322.52	204,591.12
Long-term and post-employment benefits	3,329.52	11,098.56	11,098.56	11,098.56	11,098.56	11,098.56
Total remuneration for 2018	**75,690.16**	**213,378.52**	**218,822.79**	**221,548.32**	**213,421.08**	**215,689.68**
Applicable individual remuneration threshold	56,700.00	189,000.00	189,000.00	189,000.00	189,000.00	189,000.00
Reason for exceeding, where applicable: see	a	a	a	a	a	a

a The WNT does not apply to these senior officials. Disclosure of their remuneration is mandatory, however.The remuneration threshold is exceeded due to specific remuneration arrangements that were agreed when these officials were appointed.

DETAILS FOR 2017

Position(s) in 2017	Director	Director	Director	Director	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	1/1 - 31/12
Employment in FTEs	0.3	1.0	1.0	1.0	1.0	1.0
Remuneration						
Remuneration plus taxable expense allowance	77,184.95	193,757.36	197,617.08	205,830.69	199,498.59	195,227.17
Long-term and post-employment benefits	3,303.72	11,012.52	11,012.52	11,012.52	11,012.52	11,012.52
Total remuneration for 2017	**80,488.67**	**204,769.88**	**208,629.60**	**216,843.21**	**210,511.11**	**206,239.69**
Applicable individual remuneration threshold	54,300.00	181,000.00	181,000.00	181,000.00	181,000.00	181,000.00
Reason for exceeding, where applicable: see	a	a	a	a	a	a

a The WNT does not apply to these senior officials. Disclosure of their remuneration is mandatory, however. The remuneration threshold is exceeded due to specific remuneration arrangements that were agreed when these officials were appointed.

DETAILS OF PARTICIPATING INTERESTS

AS AT YEAR-END 2018, TNO HAD DIRECT PARTICIPATING INTERESTS IN THE FOLLOWING ENTITIES

Name	Registered office	%
TNO International Holding BV	Delft	100%
– TNO Japan K.K.	Yokohama	100%
– TNO Singapore CLG	Singapore	100%
– ECN Beijing New Energy Technologies Co, Ltd	Beijing	100%
TNO Affiliates Holding BV	Delft	100%
– TNO Heimolen BV	Bergen op Zoom	100%
– TNO Powertrain Test Services BV	Delft	100%
– Sunlab BV	Petten	100%
– ECN-Ambigo BV	Petten	100%
TNO Tech Transfer Holding BV	Delft	100%
– Solaroad BV	Delft	100%
– SALDTech BV	The Hague	75%

THE FOLLOWING ENTITIES ARE NOT CONSOLIDATED

Name	Registered office	%
Yes!Delft BV	Delft	20%
MILENA-OLGA Joint Innovation BV	Amsterdam	50%
Nearfield Instruments BV	Delft	31%
Bibo Innovations BV	Maastricht	28%
Tiledmedia BV	Rotterdam	7%
Innovation Industries Fund UA	Enschede	2%
Solar Visuals BV	Alkmaar	33%
LeydenJar Technologies BV	Oegstgeest	6%
Blue Hart Energy BV	Alkmaar	10%
MorePV BV	Schoorl	6%
TBQ BV	Delft	27%
Gexcon Netherlands BV	Utrechtse Heuvelrug	30%
Sightlabs BV	Amsterdam	20%
First Dutch Innovations	Delft	45%

As at year-end 2018, TNO also had branch offices in Singapore, Qatar and Aruba.

Delft, 28 March 2019

OTHER INFORMATION

PROFIT APPROPRIATION

Section 4 of the TNO Guidelines for Financial Reporting (*Richtlijnen Financiële Verslaggeving TNO*) issued by the Ministry of Education, Culture and Science contains the following provisions: Reserves must be formed as part of the appropriation of the profit (loss) for the year. In addition, special reserves may be formed or additions to or withdrawals from existing special reserves may take place as part of the appropriation of the profit (loss) for the year. For example, a special reserve may be formed for future expenditures or expenses as part of the appropriation of the profit (loss) for the year. Any recognition of special reserves must take place on the basis of concrete policy plans and concrete financing plans. In addition, withdrawals may be made for purposes for which the special reserves were originally recognised, such as for expenditures made in the financial year. Expenditures that qualify as costs which exclusively relate to the relevant financial year are charged to the income statement for the relevant year. Expenditures that qualify as investments in knowledge development are capitalised.

The amortisation costs related to this investment are systematically charged to the income statement. As part of the appropriation of the profit (loss) for the year, an amount equal to the aforementioned amortisation costs or expenditures that qualify as costs in the financial year must be withdrawn from the special reserves.

INDEPENDENT AUDITOR'S REPORT

To: Supervisory Board and Board of Management of Nederlandse Organisatie voor Toegepast Natuurwetenschappelijk Onderzoek TNO

A. REPORT ON THE ACCOMPANYING FINANCIAL STATEMENTS 2018

Our opinion

We have audited the financial statements for 2018 of the Nederlandse Organisatie voor toegepast-natuurwetenschappelijk onderzoek (hereinafter 'TNO') 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 2018 and of its result for 2018 in accordance with the TNO Guidelines for Financial Reporting issued by 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 Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector/WNT).

The financial statements comprise:

1 the consolidated and company balance sheet as at 31 December 2018;
2 the consolidated and company income statement for the year ended 31 December 2018; and
3 the notes, comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conduced our audit in accordance with Dutch law, including the Dutch Standards on Auditing, the TNO Auditing Protocol and the WNT Auditing Protocol 2018. 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 Independence of Accountants in Assurance Engagements Regulation (*Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten* (ViO)) and other Dutch independence rules relevant to the engagement. Furthermore, we have complied with the Regulation on the Code of Conduct and Professional Practice for Auditors (*Verordening gedrags- en beroepsregels accountants* (VGBA)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Compliance with anti-cumulation provision of WNT not audited

In accordance with the WNT Auditing Protocol 2018, we did not audit the Compliance with the anti-cumulation provisions in Section 1.6a of the WNT and Section 5(1)(j) of the WNT Implementation Regulation (*W*). Therefore, we did not audit whether a remuneration maximum was exceeded by a senior management official because such an official was also employed at other institutions that fall under the WNT, nor did we audit whether the required information in this respect has been fully and correctly disclosed.

B. 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, consisting of:

– the management report; and
– other information.

Based on the procedures we performed as described below, we conclude that the other information:

– is consistent with the financial statements and does not contain material misstatements;
– contains all information required in accordance with the TNO Guidelines for Financial Reporting issued by the Ministry of Education, Culture and Science.

We have read the other information and 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 have complied with the requirements in Dutch Standard 720 and the TNO Auditing Protocol. The scope of the procedures performed is substantially 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 management report and the other information in accordance with the TNO Guidelines for Financial Reporting issued by the Ministry of Education, Culture and Science.

C. DESCRIPTION OF THE RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Responsibilities of the Board of Management and 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 issued by 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 Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (WNT). In this context, 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 fraud or error.

In preparing the financial statements, the Board of Management is responsible for assessing TNO'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 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 responsibility is to plan and perform the audit engagement 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 or fraud during our audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they may reasonably be expected to influence the economic decisions of users taken on the basis of these 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, where relevant, and have maintained professional scepticism throughout the audit, in accordance with the Dutch Standards on Auditing, the TNO Auditing Protocol, the WNT Auditing Protocol 2018 and the 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 the accounting policies used and evaluating the reasonableness of the accounting estimates made by the Board of Management and the related disclosures in the financial statements;
- concluding on the appropriateness of Board 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 and 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 entity to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures contained therein; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are responsible for the opinion on the financial statements, we are also responsible for the direction, supervision and performance of the group audit. In this context, we determined the nature and extent of the procedures to be performed for the group components. This was determined by considering the size and/or risk profile of the group components or activities. On this basis, we selected the group components for which an audit or review of the complete set of financial information or specific items had to be performed.

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 deficiencies in internal control that we identify during our audit.

Rotterdam, 28 March 2019

Ernst & Young Accountants LLP

M. Verschoor RA

ACKNOWLEDGEMENTS AND CONTACT INFORMATION

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

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