

› FINANCIAL STATEMENTS 2020

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› 2020 FINANCIAL STATEMENTS

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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 2020

(in thousands of euros)

after profit appropriation

			31/12/2020	31/12/2019
Fixed assets				
Intangible assets	1	3,411		3,920
Property, plant and equipment	2	204,730		192,480
Financial assets	3	25,889		23,367
			234,030	219,767
Current assets				
Inventories		319		495
Receivables	4	44,040		49,117
Cash and cash equivalents	5	334,828		229,548
			379,187	279,160
Total			613,217	498,927
Group equity				
General reserve	6	272,978		220,807
Legal reserve	7	17,993		15,399
Special reserves	8	37,886		27,096
			328,857	263,302
Minority interest			-1	-
Provisions	9		13,697	13,375
Long-term liabilities	10		18,794	21,267
Current liabilities	11		251,870	200,983
Total			613,217	498,927

2020 CONSOLIDATED INCOME STATEMENT

(in thousands of euros)

			2020	2019
Revenue	12	540,967	534,731	
Other operating income	13	12,500	19,200	
Total operating income			553,467	553,931
Direct project costs	14	-61,117	-79,889	
Personnel expenses	15	-356,457	-340,170	
Amortisation		-509	-483	
Depreciation	16	-22,762	-22,009	
Impairment losses on property, plant and equipment	16	-4,746	-1,694	
Other operating expenses	17	-95,130	-93,445	
Total operating expenses			-540,721	-537,690
Operating profit (loss)			12,746	16,241
Finance income and expenses	18		-2,170	-549
Profit (loss) from ordinary activities before tax			10,576	15,692
Corporation tax	19		2,948	-3,948
Share of profit (loss) of participating interests	20		52,029	3,636
Profit (loss) from ordinary activities after tax			65,553	15,380
Minority interest			2	-
Net profit (loss)			65,555	15,380
Profit appropriation				
Net profit (loss)			65,555	15,380
Addition to:				
- special reserve for civil operating risks		-4,097	-751	
- statutory reserve		-2,594	-2,850	
- special reserve for construction of new defence buildings		-13,186	-5,110	
			-19,877	-8,711
Withdrawal from:				
- special reserve for civil operating risks		4,097	751	
- statutory reserve		-	-	
- special reserve for construction of new defence buildings		2,396	4,676	
			6,493	5,427
Profit (loss) after changes in special reserves			52,171	12,096
Change in general reserve			-52,171	-12,096
			-	-

2020 CONSOLIDATED CASH FLOW STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)

		2020	2019
Operating profit (loss)	12,746	16,241	
Amortisation	509	483	
Depreciation	27,508	23,703	
Gain (loss) on disposal of fixed assets	2,687	-3,008	
Change in provisions	322	477	
Change in working capital, excl. cash and cash equivalents	57,464	3,701	
Cash flow from business operations	101,236	41,597	
Interest received	293	381	
Dividends received	49,500	3,150	
Interest paid	-2,288	-918	
Corporation tax	2,943	-2,516	
Cash flow from operating activities		151,684	41,694
Investments in intangible assets	-	-	
Investments in property, plant and equipment	-47,687	-41,802	
Investments in financial assets	-957	-3,041	
Investments in acquisitions	-	-	
Disposals of intangible assets	-	12	
Disposals of property, plant and equipment	1,306	7,703	
Movement in minority interest	-1	-	
Disposal of participating interests	-	-	
Repayments received	508	557	
Cash flow from investing activities		-46,831	-36,571
Loans drawn	1,318	971	
Repayments on loans	-877	-255	
Cash flow from financing activities		441	716
Cash flow for financial year		105,294	5,839
Cash and cash equivalents as at 1 January		229,548	223,835
Cash flow for financial year		105,294	5,839
Exchange differences		-14	-126
Cash and cash equivalents as at 31 December		334,828	229,548
STATEMENT OF COMPREHENSIVE INCOME			
		2020	2019
Consolidated net profit (loss) after tax		65,555	15,380
Comprehensive income		65,555	15,380

NOTES TO THE 2020 CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES

1.1 GENERAL

TNO connects people and knowledge to create innovations which will strengthen the industry's competitive edge and promote the well-being of society in a sustainable manner.

Name: Nederlandse Organisatie voor Toegepast Natuurwetenschappelijk Onderzoek TNO ('TNO').

Legal form: public corporate body with statutory task.

Chamber of Commerce number: 27376655

TNO has its place of business (under the articles of association) in Delft.

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. An additional order issued by the Ministry of Education, Culture and Science on 21 February 2014, reference OWB/FO/2004/8195, exempts TNO from the provisions of Dutch Accounting Standard 271 'Employee benefits'.

Specifically, the provisions relating to pensions are declared not applicable. TNO does form a provision for holiday pay and holidays, as well as a provision for jubilee benefits.

The accounting policies that are applied for the valuation of assets and liabilities and the determination of profits or losses are based on the historical cost convention. For the implementation of the Public and Semi-Public Sector (Standards for Remuneration) Act (WNT), TNO has observed the WNT Application Policy Rules and used these as a system of standards during the preparation of these financial statements.

Comparative figures

Where necessary, the comparative figures for 2019 have been reclassified to improve comparability with the figures for 2020. 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 of third parties in the profit (loss) are deducted separately from the group profit (loss) as a final item in the income statement.

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. If all or part of a foreign activity is sold, the amount in question is transferred from the reserve for translation differences 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 stated 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. If foreign exchange contracts are concluded to hedge monetary assets and liabilities, cost price hedge accounting is applied. Hedge accounting is applied to ensure that the results recognised in the income statement as a result of the conversion of monetary items are compensated value changes of foreign exchange contracts at the spot rate on 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 overhedged.

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. They are capitalised insofar as they relate to projects deemed 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 sell 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. Business land and property, plant and equipment under construction and prepayments on property, plant and equipment 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. 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 of 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 interest 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 LOSSES

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 is when the carrying amount of an asset is higher than the recoverable amount; the recoverable amount is the highest of the fair value and the 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 fair value is initially derived from a binding sales agreement; failing that, the fair value is determined based on the active market, where the customary offer price is normally considered the market 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 there 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 date 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 Executive Board 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.

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

1.15 MINORITY INTEREST

The minority interest 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 jubilee provision is a provision for future jubilee benefits. The provision concerns the present value of the jubilee benefits to be paid out in the future. The provision is based on amounts that have been committed, the likelihood of staff staying and age.

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 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, claims 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

Government or third-party resources that compensate TNO for an investment in an asset are turned into liabilities on the balance sheet and systematically credited to the income statement during 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.

As there is an even flow of projects that are completed at regular intervals throughout the year and tend to be completed within one year, profit recognition on projects in progress takes place upon completion. 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 'Long-term liabilities'.

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.

Profits or losses on transactions, are not recognised in the consolidated income statement insofar as they cannot be considered 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 expenses and similar expenses are recognised in the period to which they relate while factoring in the effective interest rate.

1.25 CORPORATION TAX/DEFERRED TAX ASSETS

With effect from the financial year of 2016, TNO will be liable to pay corporation tax for the integrated profit (loss).

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 balance sheet for tax purposes as at 1 January 2016 was adopted definitively in 2020.

TNO Tech Transfer Holding BV; TNO International Holding BV and TNO Affiliates Holding 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 provisions for restructurings, a provision for redundancies, 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 2020

(in thousands of euros)

1 INTANGIBLE ASSETS

Changes in intangible assets in 2020:

	Goodwill	Software	Total
Balance at 31/12/2019			
Cost of acquisition	4,705	97	4,802
Accumulated depreciation and impairment	-823	-59	-882
Carrying amount	3,882	38	3,920
Change in carrying amount			
Investments	-	-	-
Disposals	-	-	-
Depreciation	-471	-38	-509
	-471	-38	-509
Balance at 31/12/2020			
Cost of acquisition	4,705	-	4,705
Accumulated depreciation and impairment	-1,294	-	-1,294
Carrying amount	3,411	-	3,411

On 1 April 2018, TNO took over the energy activities of Stichting Energieonderzoek Centrum Nederland (NRG) for a purchase price of EUR 9.9 million and EUR 2.5 million for the working capital. On 1 October 2018, the activities from the Energy Engineering & Environment unit were returned from TNO to NRG. This involved a price of EUR 1.0 million and 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 taken over amounted to EUR 4.2 million, not including working capital. The amount in goodwill is EUR 4.7 million, which will be amortised over a 10-year period.

The carrying amount of the acquired working capital corresponds to its fair value. As at 31 December 2020, there was no reason to apply an impairment loss.

2 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment in 2020:

	Land and buildings	Plant and equipment	Other operating assets	Fixtures and fittings	Assets under construction and development	Property, plant and equipment not used in operations	Total
Balance at 31/12/2019							
Cost of acquisition	141,366	140,712	135,390	9,659	24,196	31,135	482,458
Accumulated depreciation and impairment	-86,080	-81,458	-95,419	-4,386	-	-22,635	-289,978
Carrying amount	55,286	59,254	39,971	5,273	24,196	8,500	192,480
Change in carrying amount							
Investments	-	133	10,549	571	-	389	11,642
Impact consolidations/deconsolidations	-	-	-	-	-	-	-
Disposals	-399	-761	-29	-	-	-	-1,189
Impairment losses	-1,198	-2,871	-677	-	-	-	-4,746
Amortisation	-1,987	-8,903	-12,581	-903	-	-944	-25,318
Assets under construction and development recognised in financial year	-	5,743	4,028	80	-9,851	-	-
Disposal of assets under construction	-	-	-	-	-2,804	-	-2,804
Assets under construction, new investments in 2020	-	-	-	-	34,665	-	34,665
	-3,584	-6,659	1,290	-252	22,010	-555	12,250
Balance at 31/12/2020							
Cost of acquisition	139,471	143,685	138,675	10,168	46,206	31,524	509,729
Accumulated depreciation and impairment	-87,769	-91,090	-97,414	-5,147	-	-23,579	-304,999
Carrying amount	51,702	52,595	41,261	5,021	46,206	7,945	204,730

The depreciation expense presented in the income statement also includes the release from the investment grants equalisation account. The carrying amount of property, plant and equipment as at 31 December 2020 includes land, buildings, plant and equipment for EUR 19.3 million (2019: EUR 23.4 million), of which TNO only has economic ownership. This relates to investments in rented premises.

Applied depreciation periods in years

	2020	2019
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 participations		Other loans	Deferred tax assets	Total
	Share in equity	Loans			
Balance at 31/12/2019	17,007	100	1,115	5,145	23,367
Changes:					
Investments and loans granted	602	355	-	-	957
Disposals and repayments	-	-	-508	-	-508
Value changes	-11	-	-	-	-11
Share of profit (loss) of participating interests	52,029	-	-	-	52,029
Movement in loans	78	-78	-	-	-
Dividends	-49,500	-	-	-	-49,500
Change in deferred tax assets	-	-	-	-445	-445
Balance at 31/12/2020	20,205	377	607	4,700	25,889

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

DEFERRED TAX ASSETS

	2020	2019
Balance as at 1 January	5,145	5,114
Change in difference between tax bases and carrying amounts of PP&E	-445	31
Balance as at 31 December	4,700	5,145

Deferred tax assets are stated at present value. For the present value calculation, an interest rate of 1.5% is used. The nominal value of deferred tax assets is EUR 9.6 million (2019: EUR 11.2 million).

The present value of nominal deferred tax assets is EUR 7.9 million (2019: EUR 8.6 million).

Of the deferred tax assets, EUR 4.4 million is more than one year old (2019: EUR 4.6 million).

As TNO has no profit objective and there is insufficient certainty that all deferred tax assets will be utilised, combined with a very long time horizon for a part of the assets, a review of the deferred tax assets as at 31 December 2020 was conducted. On the basis of this review the assets have been valued at EUR 4.7 million (2019: EUR 5.1 million). The deferral was created on account of the difference between tax bases and carrying amounts of assets and liabilities.

4 RECEIVABLES

	31/12/2020	31/12/2019
Contract receivables	33,874	40,441
Receivables from participating interests	-	300
Other receivables	2,092	1,481
Prepayments and accrued income	8,074	6,895
Total	44,040	49,117

Of the receivables, EUR 0.7 million (2019: EUR 1.5 million) has a term to maturity of more than one year. All prepayments and accrued income have a term to maturity of less than one year.

5 CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents as at year-end 2020 exceeds the special reserve for the construction of new defence buildings (see note 8).

6 GENERAL RESERVE

	2020	2019
Balance as at 1 January	220,807	208,711
Profit appropriation	52,171	12,096
Balance as at 31 December	272,978	220,807

7 STATUTORY RESERVE

	2020	2019
Balance as at 1 January	15,399	12,549
Change	2,594	2,850
Balance as at 31 December	17,993	15,399

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

8 SPECIAL RESERVES

	Balance at 31/12/2019	Withdrawn in 2020	Added in 2020	Balance at 31/12/2020
Civil operating risks	9,075	4,097	4,097	9,075
Construction of new defence buildings	18,021	2,396	13,186	28,811
Total	27,096	6,493	17,283	37,886

9 PROVISIONS

	Balance at 31/12/2019	Withdrawn in 2020	Added in 2020	Release in 2020	Balance at 31/12/2020
Employee and post-employment benefits	442	65	15	-	392
Jubilee provision	2,990	247	236	-	2,979
Claims	800	-	115	-	915
Restructurings	1,466	1,504	423	45	340
Redundancies	883	903	159	-	139
Other	6,794	862	3,043	43	8,932
Total	13,375	3,581	3,991	88	13,697

The 'Other provisions' item includes an amount of EUR 8.9 million for onerous tenancy contracts (2019: EUR 6.8 million). Of the provisions, approximately EUR 9.6 million is of a long-term nature (2019: EUR 5.8 million). Further information about the provisions can be found under the heading 'Accounting policies' in the notes to the consolidated financial statements for 2020.

10 LONG-TERM LIABILITIES

	31/12/2020	31/12/2019
Investment grants equalisation account	12,735	14,650
Other loans	6,263	6,803
Present value correction interest-free loans	-204	-186
Total	18,794	21,267

INVESTMENT GRANTS EQUALISATION ACCOUNT

	2020	2019
Balance as at 1 January	14,650	17,170
Release in connection with disposals	-	-
Grants awarded	641	-
	15,291	17,170
Release added to profit (loss) for the year	-2,556	-2,520
Balance as at 31 December	12,735	14,650

Of the investment grants equalisation account, EUR 2.5 million has a term to maturity of less than one year (2019: EUR 2.5 million) and EUR 5.1 million has a term to maturity of more than five years (2019: EUR 5.2 million).

Of the other loans, EUR 3.3 million has a term to maturity of between one and five years (2019: EUR 3.3 million). The remainder of the other loans, amounting to EUR 2.8 million, has a term to maturity of more than five years (2019: EUR 3.3 million). No securities have been issued. The other loans are interest-free.

11 CURRENT LIABILITIES

	31/12/2020	31/12/2019
Payables	7,662	11,557
Taxes and social insurance contributions	22,359	22,152
Pensions	149	143
Holiday pay	9,137	8,513
Outstanding leave entitlement	16,269	15,472
Other liabilities	48,818	32,770
Accruals and deferred income	36,727	29,077
Accrued government funding	46,430	38,719
Projects in progress	64,319	42,580
Total	251,870	200,983

The other liabilities largely relate to costs recognised in 2020 and to be settled in 2021. These current liabilities do not bear interest. Accruals and deferred income largely relate to advances received in respect of specific research projects.

The accruals and deferred income recognised in 2020 include EUR 9.6 million in investment grants that will lead to expenditures in 2021, as well as EUR 26.6 million in advances received for research projects that will be transferred to third parties in 2021. Of the accruals and deferred income, EUR 0.5 million has a term to maturity of more than one year (2019: EUR 3.8 million).

TNO cannot claim back the VAT paid for non-economic activities and applies the pre-pro rata method. This method involved elements of estimation.

Projects in progress	31/12/2020	31/12/2019
Accumulated costs less provisions for losses and risks	211,822	224,760
Debit: Cumulative declared instalments	-276,141	-267,340
Total projects in progress	-64,319	-42,580
Balance of projects in progress > 0	101,657	127,614
Balance of projects in progress < 0	-165,976	-170,194
Advances received		
Total projects in progress	-64,319	-42,580

The 'Projects in progress' item includes a provision for losses and risks of EUR 12.3 million (2019: EUR 5.3 million).

FINANCIAL INSTRUMENTS

General

As part of its ordinary activities, TNO uses various financial instruments that expose TNO to market and/or credit risks. This concerns financial instruments recognised in the balance sheet, as well as forward exchange contracts and interest rate swaps to hedge future transactions, cash flows, and interest rate risks. TNO does not trade in financial instruments and has procedures and courses of action in place to limit the extent of the credit risk at each counterparty or the 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. With respect to cash and cash equivalents, the interest rate risk is the risk of the fair value of future cash flows of a financial instrument fluctuating due to changes in market rates of interest. The current cash and cash equivalents position does not have a fixed rate of interest, which is why the organisation is not exposed to an interest rate risk on this position. It is preferable for all loans to have a fixed interest rate throughout their term to maturity. If a loan does not have a fixed interest rate, it is TNO's policy to use derivatives to control (interim) interest rate fluctuations. The loans are held to maturity.

Credit risk

TNO runs a credit risk by virtue of transactions. This risk relates to the potential loss when a counterparty defaults on its obligations. 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 spread 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 recalculated the price for all contracts individually from when they were entered into to the balance sheet date. The hedged position as at the balance sheet date and as at the date on which the hedge was entered into (EUR 5.2 million and EUR 5.3 million respectively) is presented in the notes. The market value of the outstanding USD forward contracts is EUR 3.1 million and the contract value is EUR 3.1 million (2019: EUR 5.0 and EUR 5.0 million respectively). As at year-end 2020, there were no GBP forward contracts (2019: market value of EUR 0.2 million and contract value of EUR 0.2 million). The market value of the outstanding JPY forward contracts is EUR 2.1 million and the contract value is EUR 2.1 million (2019: EUR 8.7 and EUR 8.4 million respectively).

Off-balance sheet assets and liabilities

As at 31 December 2020, operating lease liabilities for the 2021-2025 period amount to approximately EUR 4.8 million (2019: EUR 4.1 million), of which EUR 1.9 million in 2021 (2020: EUR 1.7 million) expired and EUR 2.9 million (2019: EUR 2.4 million) expires after between one and five years. In 2020, the amount of paid operating lease was EUR 2.5 million (2019: EUR 2.5 million).

The total of rental obligations is EUR 49.5 million (2019: EUR 60.9 million), of which EUR 11.5 million (2019: EUR 12.8 million) has a term of maturity of less than one year, EUR 29.3 million (2019: EUR 37.1 million) expires between one and five years and EUR 8.7 million (2019: EUR 11.0 million) after five years. In 2020, the amount paid in rent was EUR 13.3 million (2019: EUR 14.2 million).

As at 31 December 2020, investment obligations in respect of property, plant and equipment totalled EUR 4.3 million (2019: EUR 4.2 million).

The total of bank guarantees issued is EUR 0.2 million (2019: EUR 0.3 million). The credit facility and bank guarantee facility total EUR 13.3 million (2019: EUR 13.3 million) and EUR 11.0 million (2019: EUR 11.0 million) respectively.

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

- negative pledge/pari passu and cross-default clause;
- joint liability agreement security type: RC plus one party.

As at year-end 2020, sureties furnished totalled nil (2019: 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 created for all disputes and legal proceedings based on the nominal value of the expenses that are expected to be needed to settle the liabilities and losses.

NOTES TO THE 2020 CONSOLIDATED INCOME STATEMENT

(in thousands of euros)

12 REVENUE

	2020	2019
Contract revenue	282,203	292,085
Government funding	258,764	242,646
Total	540,967	534,731

Revenue includes a negative movement in projects in progress of EUR 21.7 million (2019: negative movement of EUR 3.2 million).

CONTRACT REVENUE

Contract revenue breaks down by category as follows:

	2020	2019
Domestic contract revenue		
Government	112,233	101,990
Industry	88,406	91,638
Total domestic contract revenue	200,639	193,628
International contract revenue		
International organisations	26,655	26,978
Other	54,909	71,479
Total international contract revenue	81,564	98,457
Total	282,203	292,085

13 OTHER OPERATING INCOME

	2020	2019
Gain (loss) on disposals of property, plant and equipment	117	3,008
Other income	12,383	16,192
Total	12,500	19,200

Other income includes, among other things, income from licences and patents, non-project-related income and costs passed on externally.

14 DIRECT PROJECT COSTS

Direct costs are defined as the tangible costs (including costs of outsourced work) that are directly attributable to a project.

15 PERSONNEL EXPENSES

	2020	2019
Wages and salaries	237,517	219,767
Pension costs	28,315	26,249
Other social expenses	33,063	32,144
Other personnel expenses	58,696	62,896
Change in outstanding leave entitlement	797	772
Utilisation and release of provisions:		
- employee and post-employment benefits	-65	-121
- jubilee	-247	-141
- redundancies	-903	-1,068
- restructurings	-1,549	-2,529
	355,624	337,969
Addition to provisions:		
- employee and post-employment benefits	15	-
- jubilee	236	178
- restructurings	423	1,101
- redundancies	159	922
Total	356,457	340,170

The average number of FTEs in 2020 was 3,246, 9 of which outside the Netherlands (2019: 3,081, of which 20 outside the Netherlands). The remuneration, including pension contributions, of the members of TNO's Executive Board totalled EUR 0.8 million (2019: EUR 0.7 million). The remuneration of the members of TNO's Supervisory Board totalled EUR 0.1 million (2019: EUR 0.1 million).

The preliminary policy funding ratio (the moving 12-month average market value of investments as a percentage of the provision for pension liabilities as per the principles of the Dutch central bank (DNB)) of Stichting Pensioenfonds TNO as at 31 December 2020 came in at 98.9%. As the preliminary policy coverage is below 110% (this is the statutory lower limit to be able to index), no indexation can be allocated. The missed indexation for 2020 of 1.12% can be added to the total of missed indexations. This puts the total of missed indexations at 12.7%. The existing premium agreements related to the 2016-2020 period. New agreements were, therefore, required for the 2021-2025 period in 2020. Due to the sharp drop in interest rates and the fact that the parameters that have to be used have been set at a lower level, the premium will increase considerably or accrual will have to be reduced. The social partners ultimately set the premium for 2021 at 20.33% (was 18.2%). This allows for an accrual rate of 1.46% (was 1.75%).

16 DEPRECIATION

	2020	2019
Depreciation of:		
- buildings	3,185	2,365
- plant and equipment	11,774	8,766
- other operating assets	13,258	13,260
- fixtures and fittings	903	949
- property, plant and equipment not used in operations	944	883
	30,064	26,223
Book loss on assets	-	-
Release from:		
- investment grants equalisation account	-2,556	-2,520
Total	27,508	23,703

17 OTHER OPERATING EXPENSES

	2020	2019
Accommodation costs	41,500	38,863
Costs of materials	3,276	2,742
Use of operating assets	13,222	11,548
General administrative expenses	16,108	22,863
Outsourced work	11,609	11,315
Changes in provisions	2,753	2,136
Other expenses	6,023	2,941
Contributions paid	639	1,037
Total	95,130	93,445

18 FINANCE INCOME AND EXPENSES

	2020	2019
Interest income	293	515
Interest expenses	-2,449	-938
Exchange differences	-14	-126
Total	-2,170	-549

19 CORPORATION TAX

	2020	2019
Tax expense		
Current financial year	1,694	3,979
Previous financial year	-5,087	-
Deferred tax		
Change in deferred tax assets	445	-31
Total	-2,948	3,948

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 were formed for the difference between the valuation on the fiscal balance sheet (tax base) and the balance sheet for reporting purposes (commercial carrying amount). The commercial valuation is lower than the fiscal valuation, which results in deferred tax assets of EUR 4.7 million (2019: EUR 5.1 million). In 2020, the opening balance sheet for tax purposes was adopted definitively. The EUR 5.1 million in current tax income from prior financial years relates to additionally capitalised assets and recognised depreciation on these assets in the opening balance sheet for tax purposes.

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

	2020	2019
Nominal tax rate in the Netherlands	25.0%	25.0%
Non-tax-deductible items and restatements for prior financial years	-52.9%	0.2%
Effective tax burden	-27.9%	25.2%

20 SHARE OF PROFIT (LOSS) OF PARTICIPATING INTERESTS

	2020	2019
Participating interests:		
- Non-consolidated participating interests	52,014	3,636
- Disposal of participating interests	15	-
Total	52,029	3,636

Participating interests returned a profit of EUR 52.0 million. This includes the proceeds of EUR 51.4 million from the successful sale of several companies from First Dutch Innovations in which TNO holds a 45% participating interest.

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.

	2020	2019
Audit of the financial statements	237	240
Other audit engagements	422	247
Total	659	487

22 SUBSEQUENT EVENTS

There are no noteworthy events after the balance sheet date.

TNO BALANCE SHEET AS AT 31 DECEMBER 2020

(in thousands of euros)

after profit appropriation

		31/12/2020	31/12/2019
Fixed assets			
Intangible assets	1	3,411	3,882
Property, plant and equipment	2	202,059	189,526
Financial assets	3	135,965	86,638
		341,435	280,046
Current assets			
Inventories		319	495
Receivables	4	43,871	49,008
Cash and cash equivalents		226,004	168,062
		270,194	217,565
Total		611,629	497,611
Equity			
General reserve		272,978	220,807
Legal reserve		17,993	15,399
Special reserves		37,886	27,096
	5	328,857	263,302
Provisions	6	13,697	13,375
Long-term liabilities	7	18,794	21,267
Current liabilities	8	250,281	199,667
Total		611,629	497,611

TNO 2020 INCOME STATEMENT

(in thousands of euros)

			2020	2019
Domestic and international contract revenue		169,060	189,937	
Contract revenue government		112,233	101,990	
Market sales			281,293	291,927
Government funding			258,764	242,646
Revenue	9		540,057	534,573
Other operating income			12,355	18,507
Total operating income			552,412	553,080
Direct project costs		-60,689	-80,226	
Personnel expenses	10	-356,121	-339,818	
Amortisation		-471	-470	
Depreciation		-22,478	-21,637	
Impairment losses property, plant and equipment		-4,746	-1,694	
Other operating expenses		-94,769	-92,931	
Total operating expenses			-539,274	-536,776
Operating profit (loss)			13,138	16,304
Finance income and expenses	11		-1,701	-31
Profit (loss) from ordinary activities before tax			11,437	16,273
Corporation tax	12		2,995	-3,847
Share of profit (loss) of participating interests			51,123	2,954
Net profit (loss)			65,555	15,380

TNO 2020 CASH FLOW STATEMENT

(in thousands of euros)

		2020	2019
Operating profit (loss)	13,138		16,304
Amortisation	471		470
Amortisation	27,224		23,331
Gain (loss) on disposal of fixed assets	2,687		-3,008
Change in provisions	322		477
Change in working capital, excl. cash and cash equivalents	57,141		4,001
Cash flow from business operations	100,983		41,575
Interest received	341		465
Interest paid	-1,867		-614
Corporation tax	3,087		-2,516
Cash flow from operating activities		102,544	38,910
Investments in property, plant and equipment	-47,686		-41,861
Investments in financial assets	-157		-165
Disposals of property, plant and equipment	1,306		7,703
Repayments received	1,508		1,609
Cash flow from investing activities		-45,029	-32,714
Loans drawn	1,318		971
Repayments on loans	-877		-255
Cash flow from financing activities		441	716
Cash flow for financial year		57,956	6,912
Cash and cash equivalents as at 1 January		168,062	161,146
Cash flow for financial year		57,956	6,912
Exchange differences		-14	4
Cash and cash equivalents as at 31 December		226,004	168,062

ACCOUNTING POLICIES

General

For the accounting policies, reference is made to the consolidated financial statements. This also applies to other notes, to the extent they are not included below. The TNO financial statements are the separate financial statements.

NOTES TO THE TNO BALANCE SHEET AS AT 31 DECEMBER 2020

(in thousands of euros)

1 INTANGIBLE ASSETS

Changes in intangible assets in 2020:

	Goodwill	Software	Total
Balance at 31/12/2019			
Cost of acquisition	4,705	-	4,705
Accumulated depreciation and impairment	-823	-	-823
Carrying amount	3,882	-	3,882
Change in carrying amount			
Depreciation	-471	-	-471
	-471	-	-471
Balance at 31/12/2020			
Cost of acquisition	4,705	-	4,705
Accumulated depreciation and impairment	-1,294	-	-1,294
Carrying amount	3,411	-	3,411

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 the Energy Engineering & Environment unit were returned from TNO to NRG, which paid EUR 1.0 million for the unit and 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, not including 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. As at 31 December 2020, there was no reason to recognise an impairment loss.

2 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment in 2020:

	Land and buildings	Plant and equipment	Other operating assets	Fixtures and fittings	Assets under construction and development	Property, plant and equipment not used in operations	Total
Balance at 31/12/2019							
Cost of acquisition	139,666	140,453	132,099	9,655	24,196	31,135	477,204
Accumulated depreciation and impairment	-86,080	-81,199	-93,381	-4,383	-	-22,635	-287,678
Carrying amount	53,586	59,254	38,718	5,272	24,196	8,500	189,526
Change in carrying amount							
Investments	-	133	10,548	571	-	389	11,641
Disposals	-399	-761	-29	-	-	-	-1,189
Impairment losses	-1,198	-2,871	-677	-	-	-	-4,746
Amortisation	-1,987	-8,903	-12,298	-902	-	-944	-25,034
Assets under construction and development recognised in financial year	-	5,743	4,028	80	-9,851	-	-
Disposal of assets under construction	-	-	-	-	-2,804	-	-2,804
Assets under construction, new investments in 2020	-	-	-	-	34,665	-	34,665
	-3,584	-6,659	1,572	-251	22,010	-555	12,533
Balance at 31/12/2020							
Cost of acquisition	137,771	143,426	135,384	10,169	46,206	31,524	504,480
Accumulated depreciation and impairment	-87,769	-90,831	-95,094	-5,148	-	-23,579	-302,421
Carrying amount	50,002	52,595	40,290	5,021	46,206	7,945	202,059

The depreciation expense recognised in the income statement also includes the release from the investment grants equalisation account. The carrying amount of property, plant and equipment as at 31 December 2020 includes land, buildings, plant and equipment for EUR 19.3 million (2019: EUR 23.4 million), of which TNO only has economic ownership. This relates to investments in rented premises.

3 FINANCIAL ASSETS

	Group companies	Participating interests	Loans	Deferred tax assets	Total
	Share in equity	Share in equity			
Balance at 31/12/2019	56,852	-	24,641	5,145	86,638
Changes:					
Investments and loans granted	-	-	157	-	157
Disposals and repaid loans	-	-	-1,508	-	-1,508
Share of profit (loss) of participating interests	51,123	-	-	-	51,123
Change in deferred tax assets	-	-	-	-445	-445
Balance at 31/12/2020	107,975	-	23,290	4,700	135,965

Of the loans item, EUR 22.7 million relates to loans to group companies (2019: EUR 23.6 million).

Of the loans, EUR 21.8 million has a term to maturity of more than one year (2019: EUR 23.0 million).

DEFERRED TAX ASSETS

	2020	2019
Balance as at 1 January	5,145	5,114
Change in difference between tax bases and carrying amounts of PP&E	-445	31
Balance as at 31 December	4,700	5,145

Deferred tax assets are stated at present value. For the present value calculation, an interest rate of 1.5% is used. The nominal value of deferred tax assets is EUR 9.6 million (2019: EUR 11.2 million).

The present value of nominal deferred tax assets is EUR 7.9 million (2019: EUR 8.6 million).

Of the deferred tax assets, EUR 4.4 million is more than one year old (2019: EUR 4.6 million).

As TNO has no profit objective and there is insufficient certainty, combined with the partially very long processing times, not all deferred tax positions can be capitalised.

The measurement of the deferred tax asset as at 31 December 2020 was reviewed and set at EUR 4.7 million (2019: EUR 5.1 million).

The deferral was created on account of the difference between tax bases and carrying amounts of assets and liabilities.

4 RECEIVABLES

	31/12/2020	31/12/2019
Contract receivables	32,389	39,910
Receivables from group companies	1,363	584
Receivables from participating interests	-	300
Other receivables	2,045	1,319
Prepayments and accrued income	8,074	6,895
Total	43,871	49,008

Of the receivables, EUR 0.7 million has a term to maturity of more than one year (2019: EUR 1.5 million). All items in prepayments and accrued income fall due in less than one year.

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 31/12/2019	Withdrawn in 2020	Added in 2020	Release in 2020	Balance at 31/12/2020
Employee and post-employment benefits	442	65	15	-	392
Jubilee provision	2,990	247	236	-	2,979
Claims	800	-	115	-	915
Restructurings	1,466	1,504	423	45	340
Redundancies	882	903	159	-	138
Other	6,795	862	3,043	43	8,933
Total	13,375	3,581	3,991	88	13,697

The 'Other provisions' item includes an amount of EUR 8.9 million for onerous contracts (2019: EUR 6.8 million). Of the provisions, approximately EUR 9.6 million is of a long-term nature (2019: EUR 5.8 million).

7 LONG-TERM LIABILITIES

	31/12/2020	31/12/2019
Investment grants equalisation account	12,735	14,650
Other loans	6,263	6,803
Present value correction interest-free loans	-204	-186
Total	18,794	21,267

Of the investment grants equalisation account, EUR 2.5 million has a term to maturity of less than one year (2019: EUR 2.5) and EUR 5.1 million has a term to maturity of more than five years (2019: EUR 5.2 million). No securities have been issued. The other loans are interest-free. Of the other loans, EUR 3.3 million has a term to maturity of between one and five years (2019: EUR 3.3 million). The remainder of the other loans, amounting to EUR 2.8 million, has a term to maturity of more than five years (2019: EUR 3.3 million).

8 CURRENT LIABILITIES

	31/12/2020	31/12/2019
Payables	7,649	11,518
Amounts owed to group companies	79	113
Taxes and social insurance contributions	21,691	22,059
Holiday pay	9,137	8,513
Outstanding leave entitlement	16,269	15,472
Other liabilities	48,022	31,658
Accruals and deferred income	36,727	29,077
Accrued government funding	46,430	38,719
Projects in progress	64,277	42,538
Total	250,281	199,667

Of the other liabilities, EUR 5.4 million has a term to maturity of more than one year (2019: EUR 3.2 million). These current liabilities do not bear interest. The accruals and deferred income largely relate to advances received in respect of specific research projects. Of the accruals and deferred income, EUR 0.5 million has a term to maturity of more than one year (2019: EUR 3.8 million). TNO cannot claim back the VAT paid for non-economic activities and applies the pre-pro rata method. This method involved elements of estimation.

PROJECTS IN PROGRESS

	31/12/2020	31/12/2019
Accumulated costs less provisions for losses and risks	211,822	224,760
Debit: Cumulative declared instalments	-276,099	-267,298
Total projects in progress	-64,277	-42,538
Balance of projects in progress > 0	101,657	127,614
Balance of projects in progress < 0	-165,934	-170,152
Advances received	-	-
Total projects in progress	-64,277	-42,538

NOTES TO THE TNO 2020 INCOME STATEMENT

(in thousands of euros)

9 REVENUE

	2020	2019
Domestic contract revenue industry	87,496	91,481
Contract revenue international organisations	26,655	26,977
International contract revenue	54,909	71,479
Total international contract revenue	81,564	98,456
Contract revenue government	112,233	101,990
Market sales	281,293	291,927
Government funding	258,764	242,646
Total	540,057	534,573

Revenue includes a negative movement in projects in progress of EUR 21.7 million (2019: negative movement of EUR 3.1 million). At project level, TNO keeps separate accounts for revenue from economic and non-economic activities.

10 PERSONNEL EXPENSES

	2020	2019
Wages and salaries	237,244	219,528
Pension costs	28,315	26,249
Other social expenses	33,020	32,079
Other personnel expenses	58,676	62,848
Change in outstanding leave entitlement	797	772
Changes in provisions	-1,931	-1,658
Total	356,121	339,818

The average number of FTEs for 2020 is 3,243, 6 of which outside the Netherlands (2019: 3,079, of which 18 outside the Netherlands). The remuneration, including pension contributions, of the members of TNO's Executive Board totalled EUR 0.8 million (2019: EUR 0.7 million). The remuneration of the members of TNO's Supervisory Board totalled EUR 0.1 million (2019: EUR 0.1 million).

11 FINANCE INCOME AND EXPENSES

	2020	2019
Interest income	341	599
Interest expenses	-2,028	-634
Exchange differences	-14	4
Total	-1,701	-31

12 CORPORATION TAX

	2020	2019
Tax expense		
Current financial year	1,647	3,878
Previous financial year	-5,087	-
Deferred tax		
Change in deferred tax assets	445	-31
Total	-2,995	3,847

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 commercial measurement is lower than the fiscal measurement, which results in deferred tax asset of EUR 4.7 million (2019: EUR 5.1 million). In 2020, the opening balance sheet for tax purposes was adopted definitively. The EUR 5.1 million in current tax income from prior financial years relates to additionally capitalised assets and recognised depreciation on these assets in the opening balance sheet for tax purposes.

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

	2020	2019
Nominal tax rate in the Netherlands	25.0%	25.0%
Non-tax-deductible items and restatements for prior financial years	-51.2%	-1.4%
Effective tax burden	-26.2%	23.6%

The taxable profit for 2020 amounted to EUR 6.6 million. This taxable profit results in a current tax expense of EUR 1.6 million (i.e. a tax rate of 25%).

13 SUBSEQUENT EVENTS

There are no noteworthy events after the balance sheet date.

TNO 2020 REMUNERATION STANDARDS COMPLIANCE REPORT (WNT ACT)

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 act.

The maximum remuneration for TNO in 2020 was EUR 201,000.00. This has been determined on the basis of the Reduction of Maximum Remuneration (WNT) Act (Wet verlaging bezoldigingsmaximum, WNT), which came into effect on 1 January 2015.

The applicable WNT maximum shown per person or per position is calculated in proportion to the working hours under the employment contract (and for senior officials also the period of service), with the proviso that the employment may not exceed 1.0 FTE for the purposes of this calculation.

An exception is the WNT maximum for members of the Supervisory Board: 15% of the WNT remuneration for the chair and 10% of the general WNT maximum for the other members.

REMUNERATION OF SENIOR OFFICIALS

1. Senior management officials

Amounts x EUR 1	Mr P de Krom	Ms F. Marring	Mr M.G.L.H. Tossings	Prof. P.J. Werkhoven
Job details	Member of the Executive Board (Chair)	Member of the Executive Board	Member of the Executive Board	Member of the Executive Board
Start and end job performance in 2020	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
Employed?	yes	yes	yes	yes
Remuneration				
Remuneration plus taxable expense allowances	189,116.43	198,018.79	188,951.72	188,959.04
Long-term and post-employment benefits	11,796.60	11,796.60	11,796.60	11,796.60
Subtotal	200,913.03	209,815.39	200,748.32	200,755.64
Applicable individual maximum remuneration	201,000.00	201,000.00	201,000.00	201,000.00
-/- amount paid in excess of statutory maximum that has not been refunded yet	n/a	n/a	n/a	n/a
Remuneration 2020	200,913.03	209,815.39	200,748.32	200,755.64
Reason why the transgression is permitted or not		1		
Further information about the claim for undue payment	n/a	n/a	n/a	n/a

- On account of joining the company before 1 January 2015, this falls under transitory law in accordance with Article 7.3 in conjunction with 7.3a of the Reduction of Maximum Remuneration (WNT) Act. Accordingly, the scaling back of their maximum remuneration started as of 1 January 2019, i.e. 4 years after 1 January 2015, the effective date of the Reduction of Maximum Remuneration (WNT) Act. The remuneration agreements for Ms Marring pre-date the entry into force of the WNT II. Ms Marring is subject to transitory law phase B. The year 2019 was the first phasing out year. To determine the phasing out in 2019, Article 11a of the 2020 WNT Policy Rules was observed.
- The identified senior officials on the Executive Board 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 2019

Amounts x EUR 1	Mr P de Krom	Ms F. Marring	Mr M.G.L.H. Tossings	Prof. P.J. Werkhoven
Job details	Member of the Executive Board (Chair)	Member of the Executive Board	Member of the Executive Board	Member of the Executive Board
Start and end job performance in 2019	1/1 - 31/12	1/1 - 31/12	15/3 - 31/12	1/5 - 31/12
Employment in FTEs	1.0	1.0	1.0	1.0
Employed?	yes	yes	yes	yes

Remuneration

Remuneration plus taxable expense allowances	179,915.68	202,804.01	136,472.34	113,915.60
Long-term and post-employment benefits	11,419.08	11,419.08	9,062.76	7,612.72

Total remuneration for 2019	191,334.76	214,223.09	145,535.10	121,528.32
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Applicable individual maximum remuneration	194,000.00	194,000.00	155,200.00	130,219.18
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Remuneration	191,334.76	214,223.09	145,535.10	121,528.32
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Senior officials in Supervisory Board (1)

Amounts x EUR 1	Mr P.G. de Vries	Ms I.H.J. Vanden Berghe	Ms J.D. Lamse-Minderhoud RA	Prof. P.P.C.C. Verbeek	Dr P.J.M. van Laarhoven	Prof. H. Bijl
Job details	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
Start and end job performance 2020	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

Remuneration	28,140.00	18,096.00	18,096.00	18,096.00	18,096.00	18,096.00
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Applicable individual maximum remuneration	30,150.00	20,100.00	20,100.00	20,100.00	20,100.00	20,100.00
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-/- amount paid in excess of statutory maximum that has not been refunded yet	n/a	n/a	n/a	n/a	n/a	n/a
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Total remuneration for 2020	28,140.00	18,096.00	18,096.00	18,096.00	18,096.00	18,096.00
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Reason why the transgression is permitted or not	n/a	n/a	n/a	n/a	n/a	n/a
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Further information about the claim for undue payment	n/a	n/a	n/a	n/a	n/a	n/a
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› TNO 2020 REMUNERATION STANDARDS COMPLIANCE REPORT (WNT ACT)

DETAILS FOR 2019

Amounts x EUR 1

Job details	Member of Supervisory Board (Chair)	Member of Supervisory Board	Member of Supervisory Board	Member of Supervisory Board	Member of Supervisory Board	Member of Supervisory Board
Start and end job performance 2019	1/7 - 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 2019	13,548.00	17,388.00	17,388.00	17,388.00	17,388.00	17,388.00
Applicable individual maximum remuneration	14,669.59	19,400.00	19,400.00	19,400.00	19,400.00	19,400.00

Senior officials in Supervisory Board (2)

Amounts x EUR 1	Ms L. Verheij van Wijk
Job details	Member of Supervisory Board
Start and end job performance 2020	1/1 - 31/12

Remuneration

Remuneration plus taxable expense allowance	18,096.00
Applicable individual maximum remuneration	20,100.00
-/- amount paid in excess of statutory maximum that has not been refunded yet	n/a
Total remuneration for 2020	18,096.00

Reason why the transgression is permitted or not	n/a
Further information about the claim for undue payment	n/a

DETAILS FOR 2019

Amounts x EUR 1

Job details	Member of Supervisory Board
Start and end job performance 2019	1/10 - 31/12

Remuneration

Total remuneration for 2019	4,347.00
Applicable individual maximum remuneration	4,889.86

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

Amounts x EUR 1

Job details	Director	Director	Senior Scientist
Start and end job performance in 2020	1/1 - 31/12	1/1 - 31/12	1/1 - 31/12
Employment in FTEs	1.0	1.0	0.05
Remuneration			
Remuneration plus taxable expense allowances	210,788.35	198,268.08	10,538.40
Long-term and post-employment benefits	11,796.60	11,796.60	589.92
Total remuneration for 2020	222,584.95	210,064.68	11,128.32
Applicable individual remuneration threshold	201,000.00	201,000.00	10,050.00
Compulsory explanation for the transgression of the applicable individual remuneration threshold	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 remuneration arrangements that were agreed when these officials were appointed.

DETAILS FOR 2019

Amounts x EUR 1

Job details	Director	Director	Senior Scientist
Start and end job performance	1/1 - 31/12	1-1 - 31/12	1/1 - 31/12
Employment in FTEs	1.0	1.00	0.05
Remuneration			
Remuneration plus taxable expense allowances	205,172.63	179,018.02	10,538.24
Long-term and post-employment benefits	11,419.08	11,419.08	570.96
Total remuneration for 2019	216,591.71	190,437.10	11,109.20

DETAILS OF PARTICIPATING INTERESTS

AS AT YEAR-END 2020, TNO HAD DIRECT PARTICIPATING INTERESTS IN THE FOLLOWING ENTITIES

Name	Registered office	%
TNO International Holding BV	Delft	100%
– TNO Japan K.K. / TNO Japan Co. Ltd	Yokohama	100%
– TNO Singapore CLG LTD	Singapore	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%
– Relement BV	Delft	88%

THE FOLLOWING ENTITIES ARE NOT CONSOLIDATED

Name	Registered office	%
MILENA-OLGA Joint Innovation BV	Amsterdam	50%
Warmtebron LEAN BV	Schiedam	3%
Eindhoven Engine BV	Eindhoven	33%
Nearfield Instruments BV	Delft	17%
Keiron Printing Technologies BV	Eindhoven	15%
Carbyon Holding BV	Eindhoven	16%
Orange Quantum Systems Holding BV	Delft	20%
Torwash BV	Burgerbrug (Schagen)	25%
Studio Automated Holding BV	Amsterdam	25%
Cellcius BV	Breda	18%
RetinaScope BV	Naarden	20%
SHIFT Invest III Cooperatief UA	Amsterdam	0%
Pharmaprint BV	Utrecht	20%
Lion Volt BV	Eindhoven	81%
Innovation Industries Fund II Cooperatief UA	Amsterdam	0%
Bibo Innovations BV	Maastricht	32%
Tiledmedia BV	Rotterdam	7%
Innovation Industries Fund Coöperatief UA	Enschede	2%
Solar Visuals BV	Alkmaar	32%
LeydenJar Technologies BV	Oegstgeest	5%
Blue Hart Energy BV	Alkmaar	10%
TBQ BV	Delft	25%
Gexcon Netherlands BV	Utrechtse Heuvelrug	30%

› DETAILS OF PARTICIPATING INTERESTS

THE FOLLOWING ENTITIES ARE NOT CONSOLIDATED

Name	Registered office	%
Sightlabs BV	Amsterdam	20%
First Dutch Innovations BV	Delft	45%
Solaroad BV	Delft	40%
SALDTech BV	The Hague	30%
TrustTester Solutions BV	Naarden	25%
CollaneX Therapeutics BV	Voorhout	20%
Delta Diagnostics BV	Rotterdam	20%
Valley Optics Holding BV	Delft	17%
SHM Next BV	The Hague	20%
AMSYSTEMS BV	Eindhoven	25%

Delft, 17 March 2021

OTHER INFORMATION

PROFIT APPROPRIATION

The TNO Guidelines for Financial Reporting issued by the Ministry of Education, Culture and Science stipulate as follows in Article 4: Reserves are formed as part of the appropriation of the profit. As part of the appropriation of the profit, special reserves may be formed or existing special reserves may be updated. The updates may be additions or withdrawals. 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 taken 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.

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

OPINION ON THE 2020 FINANCIAL STATEMENTS AS INCLUDED IN THE ANNUAL REPORT

Our opinion

We have audited the financial statements for 2020 of the Nederlandse Organisatie voor toegepast-natuurwetenschappelijk onderzoek (hereinafter 'TNO') in Delft.

We believe that the financial statements included in this annual report represent the extent and composition of the assets of TNO as at 31 December 2020 and the profit (loss) for 2020 in accordance with the TNO Guidelines for Financial Reporting issued by the Ministry of Education, Culture and Science, the additional order of 21 April 2004, reference OWB/FO/2004/8195, and the provisions of and by virtue of the Public and Semi-Public Sector (Standards for Remuneration) Act (WNT).

The financial statements comprise:

- the consolidated and separate balance sheet as at 31 December 2020;
- the consolidated and separate income statement for 2020; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing, the TNO Audit Protocol and the WNT Auditing Protocol 2020. 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 2020, we did not audit the Compliance with the anti-cumulation provision in Section 1.6a of the WNT and Section 5(1)(n and o) of the WNT Implementation Regulation (Uitvoeringsregeling WNT). 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.

OPINION ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our audit opinion thereon, the annual report contains other information, consisting of:

- the 2020 annual report entitled 'Innovation for life';
- the 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 Audit Protocol. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Executive Board is responsible for the preparation of the 2020 annual report and the other information in accordance with the TNO Guidelines for Financial Reporting issued by the Ministry of Education, Culture and Science.

DESCRIPTION OF THE RESPONSIBILITIES WITH REGARD TO THE FINANCIAL STATEMENTS

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

The Executive Board is responsible for the preparation and faithful representation of the financial statements in accordance with the TNO Guidelines for Financial Reporting issued by the Ministry of Education, Culture and Science, the additional order of 21 April 2004, reference OWB/FO/2004/8195, and the provisions of and by virtue of the Public and Semi-Public Sector (Standards for Remuneration) Act (WNT). In this context, the Executive Board is responsible for such internal control as the Executive Board 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 Executive Board is responsible for assessing TNO's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going

concern basis of accounting, unless the Executive Board either intends to liquidate TNO or to cease operations, or has no realistic alternative but to do so.

The Executive Board should disclose in the financial statements any events and circumstances that may cast significant doubt on TNO's ability to continue as a going concern.

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 Audit Protocol, the WNT Auditing Protocol 2020 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. In the event of fraud, the risk of a material misstatement not being detected is greater than in the event of errors. A case of fraud may involve conspiracy, forgery of documents, intentionally failing to document transactions, the intentional misrepresentation of facts or the violation of the internal control system;
- gaining an insight into the internal control relevant to the audit, with the aim of selecting audit activities that are appropriate in the circumstances. These activities do not serve to pass judgement on the effectiveness of TNO's internal controls;
- evaluating the appropriateness of the accounting policies used and evaluating the reasonableness of the accounting estimates made by the Executive Board

and the related disclosures in the financial statements;

- concluding that the going concern assumption adopted by the Executive Board is acceptable. Also, using the audit evidence obtained to conclude if there are any events and circumstances that may cast significant doubt on TNO's ability to continue as a going concern. If we conclude there is any significant uncertainty, we are obliged in our auditor's report to focus on the relevant associated notes to the financial statements. When the explanatory notes are incorrect, we have to adjust our certificate. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances 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.

The scope and/or the risk profile of the group units or the activities are determining factors in that respect. 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, 17 March 2021

EY Accountants LLP

On their behalf

signed, M. Verschoor RA

› PUBLICATION DETAILS

› If you want to find out more about TNO, if you have questions about this report or if you have any suggestions, send an email to info@tno.nl

EDITING AND PRODUCTION
TNO Marketing & Communications

TEXT
TNO

DESIGN
CF Report, Amsterdam

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