

OS AA01

Statement of details of parent law and other information for an overseas company



THURSDAY



S9W6009S

SCT 14/01/2021 #29
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✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law.

✗ **What this form is NOT for**
You cannot use this form to an alteration of manner of compliance with accounting requirements.

Part 1 Corporate company name

Corporate name of overseas company ● MITSUBISHI ELECTRIC R&D CENTRE EUROPE B.V.

FC 018953

UK establishment number B R 0 0 3 1 5 8

→ **Filling in this form**
Please complete in typescript or in bold black capitals.
All fields are mandatory unless specified or indicated by *
● This is the name of the company in its home state.

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited.

Legislation ● DUTCH CIVIL CODE AND DUTCH STANDARDS ON AUDITING

● This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts.

A2 Accounting principles

Accounts Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box.

No. Go to Section A3.

Yes. Please enter the name of the organisation or other body which issued those principles below, and then go to Section A3.

● Please insert the name of the appropriate accounting organisation or body.

Name of organisation or body ● NETHERLANDS CIVIL CODE AND ACCOUNTING STANDARDS

A3 Accounts

Accounts Have the accounts been audited? Please tick the appropriate box.

No. Go to Section A5.

Yes. Go to Section A4.

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Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name	ELMONDT KAPP
Company name	mitsubishi electric R&D
	CENTRE EUROPE B.V.
Address	17 FIRTH ROAD
	HOUSTOUN INDUSTRIAL ESTATE
Post town	LIVINGSTON
County/Region	WEST Lothian
Postcode	E H 5 4 5 D J
Country	SCOTLAND UK
DX	
Telephone	01506 446970



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We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- The company name and, if appropriate, the registered number, match the information held on the public Register.
- You have completed all sections of the form, if appropriate.
- You have signed the form.



Important information

Please note that all this information will appear on the public record.



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You may return this form to any Companies House address:

England and Wales:

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Scotland:

The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, Scotland, EH3 9FF. DX ED235 Edinburgh 1 or LP - 4 Edinburgh 2 (Legal Post).

Northern Ireland:

The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG. DX 481 N.R. Belfast 1.



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**ANNUAL REPORT 2019/2020
OF
MITSUBISHI ELECTRIC R&D CENTRE EUROPE B.V.**

Capronilaan 46
1119 NS Schiphol-Rijk
The Netherlands

THURSDAY

SCT *S9W6009K* #28
14/01/2021
COMPANIES HOUSE

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Document to which the KPMG report (1765186-20W00172515AVN) dated 21 August 2020 also refers.

MANAGEMENT REPORT

Document to which the KPMG report (1765186-20W00172515AVN) dated 21 August 2020 also refers.

Mitsubishi Electric R&D Centre Europe B.V.

Management report

The directors are pleased to submit their report together with the financial statements of Mitsubishi Electric R&D Centre Europe B.V. (hereinafter 'the company' or 'MERCE') for the year ended 31 March 2020.

General

MERCE is a company with limited liability, which was founded in the Netherlands on 15 September 1995, whose 90% shares are owned by Mitsubishi Electric Corporation ('MELCO'), Japan and 10% shares by Mitsubishi Electric Europe B.V. ('MEU'), the Netherlands. The statutory seat of the company is Schiphol-Rijk and the address is Capronilaan 46, Schiphol-Rijk, the Netherlands. The company has two operating branches in France ('MERCE-FR') and the UK ('MERCE-UK').

The company's principal activity is research and development with respect to technologies on communication and energy and environment, primarily for the purpose of its parent company MELCO. The mission of MERCE is "To develop new technologies to be applied to MELCO products through its R&D activities in Europe".

Activities and financial performance financial year 2019/2020

MERCE is managing its activities with continuous improvement of ethics, safety and health guidelines via regular management committees and external and internal audits. It conducted e-learning programs for all the employees, such as on competition law, GDPR, information security management, trademarks & trade compliance, and anti-bribery & conflict of interest during this year. Recruitment of new researchers and management of individual talents was being conducted in line with R&D plan. European academic and university collaborations have been exploited to understand the latest technology trends and create new ideas for the future MELCO businesses. Standardization activities are also conducted in line with patenting of competitive technologies of MERCE.

- 1) CIS (Communication & Information Systems) division at MERCE-FR conducted R&D activities on communication and information technologies and systems, to create and strengthen train communication and signalling businesses, factory network and software engineering businesses, automotive communication and control businesses, satellite communication businesses by targeting anti-fragile innovations from trans-disciplinary approaches mixing fundamental technologies like 5G, formal methods and distributed cooperation.
- 2) PES (Power Electronic Systems) division at MERCE-FR conducted R&D activities on power electronic technologies and systems to strengthen and expand power module business by targeting value-added technologies for highly integrated conversion, reliability and robustness as well as diagnostics and prognostics. PES is assisting MELCO to understand aerospace ecosystem and technological trends. The self-healing concept has been started to research as fundamental development for future module and converter businesses.
- 3) EES (Environment & Energy Systems) division at MERCE-UK strengthened cooperation and HVAC system development with M-ACE, other MELCO factories

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in Europe and MEU sales branches. Division worked on key-technology research for ATW (Air-To-Water) heat pump and systems for zero-energy buildings/houses (ZEB/ZEH) utilizing the House-type HVACs Evaluation Facility of M-ACE or research institutes. Fundamental research on water circuit reliability continued strongly. EES pursued the R&D direction and strategies created in financial year 2017/2018.

In the financial year 2019/2020, MERCE achieved EUR 14.5 million of sales, EUR 2.0 million profit after tax. This was achieved by the two operating branches, MERCE-FR achieved EUR 11.5 million of sales, EUR 1.8 million of profit after tax in MERCE-FR, and EUR 3.0 million (GBP 2.6 million) of sales and EUR 0.2 million (GBP 0.2 million) of profit after tax in MERCE-UK. The company's solvency ratio measured as Total liabilities/Equity amounts to 18.3% (2018/2019: 16.9%). The net profit percentage was 14.3% (2018/2019: 14.3%), the return on equity percentage were 7.4% (2018/2019: 7.1%). The R&D activities are predetermined based on the agreement with the parent company before the start of the company's financial year. All the results are provided to the parent company without any risks on direct and immediate business contribution by its own. The company's net assets increased from EUR 31.6 million to EUR 33.1 million, which reflects steady growth for the company.

Investments and divestments

During the financial year 2019/2020, MERCE invested EUR 461 thousand in machinery and equipment and divested EUR 98 thousand as presented under the tangible fixed assets.

Cash flow and need for external financing

The Company's liquidity position as at 31 March 2020 was EUR 20.5 million (2019: EUR 17.4 million). There is no need for external financing. As for the 2018/2019 and 2019/2020 cash flows, the company reflected a cash balance decrease in 2019/2020 of EUR 675 thousand compared to a decrease in 2018/2019 of EUR 1 million. In accordance with article 360.104 of the Dutch Accounting Standards, the Company's individual cash flows are not included in this annual report, as they are included in the cash flow statement of the consolidated financial statements of Mitsubishi Electric Corporation ('MELCO'), Japan.

Risk management and risk profile

The board of directors, under the supervision of the main shareholder MELCO, has overall responsibility and sets rules for the company's risk management and control systems. They are reviewed regularly to reflect changes in (market) conditions and the company's activities. The board of directors oversees the adequacy and functioning of the entire system of risk management and internal control, assisted by MELCO Group departments.

The day-to-day management and the board of directors regularly assess material risks to which the company is exposed to and take the necessary actions to manage and mitigate such risks satisfactorily. It is, and had been throughout the financial year, the company's policy that no trading in financial instruments shall be undertaken.

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The risks can be divided into the various categories below.

Strategic risks

MERCE's involvement in the research of technologies on communication and energy and environment and the development of new technologies to be applied to MELCO products in a number of European countries leads to a number of unavoidable strategic risks that occur naturally. These include geopolitical risks, market risks and risks in connection with social responsibility and environmental behaviour. Inherent to this strategy is that MERCE will take risks and be exposed to a variety of factors that directly or indirectly affect the company's results. However, we believe that because MELCO Group is being active in a number of segments, each with its own market dynamics, we obtain a certain degree of 'counter cyclical' between the activities and hence a somewhat more stable result development.

The goals set up within the MELCO Group to mitigate the risks in connection with social responsibility and environmental behaviour are explained under the heading 'Information regarding the aspects of corporate social responsibility'.

Operational risks

The company is exposed to operational risks caused by e.g. supplier risks, IT risks, and risks related to business and work processes. Management is closely monitoring operational risk factors, to which the company is exposed to, through a variety of internal control measures to manage such risks effectively.

Additionally, through cooperation with only trustworthy and well-known parties (e.g. suppliers, service providers, advisors), we are of the opinion that the aforementioned risks are mitigated to an acceptable level.

Financial risk

The policy of the company regarding the use of financial instruments is to avoid risks. Financial instruments are not used for trading and speculation purposes. The financial instruments recognised in the financial statements consists solely primary financial instruments. The company's financial risks include foreign currency risks, interest rate risks, credit risks, and liquidity risks. The company is exposed to developments in the currency markets and to interest-rate developments. With respect to exchange rates, MERCE is affected primarily by changes in the GBP and JPY value in relation to EUR.

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers and tax credit receivables. Receivables and cash and cash equivalents contain credit risks. The trade receivables are primarily concentrated at one major client: MELCO.

Customer and parent company MELCO has been transacting with the company since its incorporation on 15 September 1995, and no impairment loss has been recognised against this customer. Management considers the credit risk as low, since all sales are

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made to a customer with sufficient creditworthiness. Management also considers the credit risk on tax credit receivables as low.

The Company only deals with financial institutions with good credit rating as assessed by international credit rating agencies. Cash and fixed deposits are placed in banks and financial institutions with good credit rating.

The credit risk on receivables and cash and cash equivalents is limited to the carrying amount of the outstanding balances as at 31 March 2020.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the reputation of the company.

The company manages its liquidity risk with the view to maintaining a healthy level of cash and cash equivalents appropriate to the expected cash flows of the company.

The company is not exposed to significant liquidity risk. The contractual cash flows of the financial liabilities do not differ significantly from their carrying amounts. The expected contractual cash outflows of current liabilities fall within one year. Furthermore, management considers the liquidity risk as low in view of the company's cash position and, if needed, its access to debt funding sources.

Interest rate risk

As at 31 March 2020 the interest rate risk relates to possible changes in the fair value of the cash held at banks. The company considers this interest rate risk as low.

The company's policy is not to use derivative financial instruments to control interest rate fluctuations.

Foreign currency risk

The company has exposure to foreign currency risk arising from its financial instruments which are denominated in foreign currencies; mainly in GBP and JPY. The company's policy is not to use derivative financial instruments to control any foreign currency fluctuations. The company considers the foreign currency risk as low since the transactions of the company are mainly based on EUR, which is the company's functional currency.

The board of directors is aware that the foreign currency risk is not fully mitigated. However, given the significant amount of shareholder's equity and the company's cash position this will not result in any significant financial risk.

Regulatory risks

The business areas are geographically represented in a variety of countries and the company is therefore naturally exposed to a number of legal risks, tax risks and risks

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in connection with the reporting to public authorities or other external reporting. Management is closely monitoring the development concerning the regulatory environment to manage such risks. It is the company's policy to invest in the knowledge and experience of its personnel and to share knowledge with other MELCO Group entities. This enables us to address any regulatory risks. Furthermore, we engage professional experts (e.g. tax advisors, legal advisors) to assist us in identifying and mitigating regulatory risks.

Personnel related information

During the year ended 31 March 2020, the Company employed on aggregate an average of 71 employees (2018/2019: 70). We refer to note 11 of the financial statements for details about personnel related information, such as staff categories, number of staff employed, and staff employed outside of the Netherlands.

During the year ended 31 March 2020 there were no changes in Senior Management positions of the company and no major changes have been noted in the management policies and operation practices. From April 2020, Tatsuya Ishikawa was appointed as President of MEU and a Director of this Company.

Information regarding the aspects of corporate social responsibility

The MELCO Group promotes its corporate social responsibility (CSR) activities based on the conviction that all business activities must take CSR into consideration. The MELCO Group's Corporate Mission and Seven Guiding Principles form its basic CSR policies.

We are committed to the MELCO Group's CSR policies, details of which can be found on MELCO Group's website (www.mitsubishielectric.com/company/csr).

We are vigilant in our enforcement of corporate ethics and compliance and constantly work to improve educational programs and strengthen our internal control system. At the same time, we pursue initiatives related to quality management, environmental preservation, philanthropy and improved communication with all stakeholders.

Information regarding male/female ratio of board members

The members of the board of directors are being assigned by the essential stakeholders of MERCE (that is, MELCO corporate R&D department which is in charge of managing MERCE and MEU which is in charge of supervising MELCO subsidiaries in Europe) without any discrimination by gender. During 2020, the management board of the Company did not comprise a female Director and therefore the ratio male/female stays below 30%. The composition of the Board is considered on a regular basis and if needed, adjusted based on the knowledge and experience of the Directors.

Outlook

For the financial year 2020/2021, the consolidated outlook reflect sales of EUR 10.9 million for MERCE-FR and EUR 2.9 million (GBP 2.5 million) for MERCE-UK, which is 6% decrease in MERCE-FR and 5% decrease in MERCE-UK, compared with each corresponding sales in 2019/2020. The decrease in Sales is due to the global impact of Covid-19 on the MELCO Group.

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The recent outbreak of the COVID-19 (Coronavirus) continues to impact the global economy and markets. At this time, the effects of the Coronavirus on our business have been limited. However, these events may impact our customers, supply chain, workforce and operations of our facilities, our markets and our liquidity. Accordingly, we are closely evaluating the recent developments and will take necessary actions. Contingency plans are being developed, monitored and implemented. Based on our current knowledge and available information, we do not expect Covid-19 to have an impact on our ability to continue as a going concern in the future.

Future outlook for MERCE

- 1) CIS further reinforces its efforts on system development in factory automation, transportation and vehicle applications based on competitive communication and information technologies by strengthening the collaborations with MEU branches to expand MELCO's businesses in these areas.
- 2) PES division is further involved in activities on power electronics and modules by establishing power cycling testing, power conversion and fundamental technologies towards safe and robust products to expand global power electronic systems businesses of MELCO.
- 3) EES division further focuses efforts towards sustainable & comfortable society in Europe, specifically Energy Autarky (energy independence), with ZEB/ZEH and district energy systems, mainly based on thermal management, water based HVAC system and IAQ (Indoor Air Quality) & comfort technologies.

The average number of employees, investments and R&D budget are expected to be comparable to 2019/2020.

Schiphol-Rijk, 21 August 2020

Board of directors:

Jun Someya
President of MERCE

染谷潤

Toru Oka
Director-A

岡 徹

Tatsuya Ishikawa
Director-B

DocuSigned by:

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FINANCIAL STATEMENTS

Document to which the KPMG report (1785186-20W00172515AVN) dated 21 August 2020 also refers.

2. Financial statements

2.1 Balance sheet as at 31 March, 2020 (before appropriation of result)

		<u>31-03-2020</u>	<u>31-03-2019</u>
		€	€
FIXED ASSETS			
Intangible fixed assets:	1	153,402	131,000
Tangible fixed assets:	2	1,195,369	1,295,058
Financial fixed assets:	3	7,547,230	7,344,835
CURRENT ASSETS			
Trade and other receivables:	4	17,420,116	15,419,304
Cash and cash equivalents:	5	6,820,787	7,495,644
		<u>33,136,904</u>	<u>31,685,841</u>
SHAREHOLDERS' EQUITY			
	6		
Issued and paid up share capital		720,000	720,000
Translation reserve		-310,985	-122,131
Other reserves		25,528,460	24,585,337
Result after taxation		<u>2,084,392</u>	<u>1,933,123</u>
		28,021,867	27,116,329
PROVISION	7	661,415	530,000
CURRENT LIABILITIES	8	4,453,622	4,039,512
		<u>33,136,904</u>	<u>31,685,841</u>

2.2 Profit and loss account for the period 1-4-2019 until 31-3-2020

		<u>2019/2020</u>	<u>2018/2019</u>
		€	€
Net turnover	9	14,552,079	13,507,329
Other operating income	10	<u>2,761,439</u>	<u>2,777,089</u>
Operating income		17,313,518	16,284,418
Research and development and headquarter related costs	11	<u>15,236,331</u>	<u>14,474,024</u>
Operating result		2,077,187	1,810,394
Interest receivable and similar income		50,836	58,197
Interest payable and similar charges		<u>-9,243</u>	<u>-7,576</u>
Financial income and expenses		<u>41,593</u>	<u>50,621</u>
Result before tax		2,118,780	1,861,015
Taxes		-34,388	72,108
Result after tax		<u>2,084,392</u>	<u>1,933,123</u>

2.3 Notes to the financial statements

General information

Registered address and registration number trade register

Mitsubishi Electric R&D Centre Europe B.V. is a private limited company, with its registered office in Schiphol-Rijk and listed in the Dutch Chamber of Commerce trade register under number: 33271172.

The most important activities of the entity

The main activity of Mitsubishi Electric R&D Centre Europe B.V. is research with respect to technologies on communication and energy and environment, primary for the purpose of its parent company Mitsubishi Electric Corporation, Japan.

Financial reporting period

The financial reporting period 2019/2020 covers the period from 1 April 2019 until 31 March 2020.

The financial reporting period 2018/2019 covers the period from 1 April 2018 until 31 March 2019.

Basis of preparation

The consolidated financial statements of the Company are part of the statutory financial statements of the Company and have been prepared in accordance with Title 9, Book 2 of the Dutch Civil Code.

The accounting policies applied for measurement of assets and liabilities and determination of results are based on the historical cost convention, unless otherwise stated in the further accounting principles.

Disclosure of going concern

These financial statements have been prepared on the basis of the going concern assumption.

Disclosure of group structure

90% of the shares of the company are held by Mitsubishi Electric Corporation ("MELCO"), Japan and the remaining 10% are held by Mitsubishi Electric Europe B.V., The Netherlands.

The company has two operating branches in France and the United Kingdom (UK), which are included in these financial statements.

Disclosure of estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the accounting principles and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Specification of related party transactions of importance and not taken under market conditions

Transactions with related parties (refer to note 13 for the identified related parties) are disclosed if they

Document to which the KPMG report (1765186-20W00172615AVN) dated 21 August 2020 also refers.

have not been entered into at arm's length. Disclosed are the nature and amounts involved with such transactions, and other information that is deemed necessary for an insight into the transactions.

General accounting principles

The accounting standards used to prepare the financial statements

Assets and liabilities are measured at nominal value, unless otherwise stated in the further principles.

An asset is recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the asset has a cost price or value of which the amount can be measured reliably. Assets that are not recognised in the balance sheet are considered as off-balance sheet assets.

A liability is recognised in the balance sheet when it is expected that the settlement of an existing obligation will result in an outflow of resources embodying economic benefits and the amount necessary to settle this obligation can be measured reliably. Provisions are included in the liabilities of the Company. Liabilities that are not recognised in the balance sheet are considered as off-balance sheet liabilities.

An asset or liability that is recognised in the balance sheet, remains recognised on the balance sheet if a transaction (with respect to the asset or liability) does not lead to a major change in the economic reality with respect to the asset or liability. Such transactions will not result in the recognition of results. When assessing whether there is a significant change in the economic circumstances, the economic benefits and risks that are likely to occur in practice are taken into account. The benefits and risks that are not reasonably expected to occur, are not taken into account in this assessment.

An asset or liability is no longer recognised in the balance sheet, and thus derecognised, when a transaction results in all or substantially all rights to economic benefits and all or substantially all of the risks related to the asset or liability are transferred to a third party. In such cases, the results of the transaction are directly recognised in the profit and loss account, taking into account any provisions related to the transaction. If assets are recognised of which the Company does not have the legal ownership, this fact is being disclosed.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability arises, of which the size can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability arises, of which the size can be measured with sufficient reliability.

Revenues and expenses are allocated to the respective period to which they relate. Revenues are recognised when the Company has transferred the significant risks and rewards of ownership of the goods to the buyer. Events that provide further information on the actual situation at the balance sheet date and that appear before the financial statements are being prepared, are recognised in the financial statements.

Document to which the KPMG report (1785186-201900172515AVN) dated 21 August 2020 also refers.

Events that provide no information on the actual situation at the balance sheet date are not recognised in the financial statements. When those events are relevant for the economic decisions of users of the financial statements, the nature and the estimated financial effects of the events are disclosed in the financial statements.

The financial statements are presented in euros ('EUR'), which is the Company's functional currency.

Conversion of amounts denominated in foreign currency

At initial recognition, transactions denominated in a foreign currency are translated into the functional currency of the Company at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet date into the functional currency at the exchange rate applying on that date. Exchange differences resulting from the settlement of monetary items, or resulting from the translation of monetary items denominated in foreign currency, are recognised in profit and loss in the period in which the exchange difference arise. Exempted from this are exchange differences on monetary items that are part of a net investment in a foreign operation (see below).

Non-monetary assets and liabilities denominated in foreign currency that are measured based on historical cost, are translated into the functional currency at the exchange rates at the date of the transactions.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at current value, are translated into the functional currency at the exchange rates when the current value is determined. Exchange rate differences that arise from this translation are directly recognised in equity as part of the revaluation reserve.

The company has multiple functional currencies. The functional currency of the UK branch is GBP and the functional currency of the French branch is EUR.

The following exchange rates were applied:

31 March 2020: GBP 1 = EUR 1.1186 (31 March 2019: GBP 1 = 1.1600)

2019-2020: GBP 1 = EUR 1.144 (2018-2019: GBP 1 = 1.1300)

Foreign operations

The assets and liabilities that are part of the net investment in a foreign operation are translated into the functional currency at the exchange rate on the reporting date. The revenues and expenses of such a foreign operation are translated into the functional currency at the exchange rate on the transaction date. Currency translation differences are directly recognised in the translation reserve within equity.

When a foreign operation is fully or partially sold, the cumulative amount that relates to that foreign operation is transferred from the translation reserve to the profit and loss account.

Leases

The Company may enter into finance and operating leases. A lease agreement under which the risks and rewards of ownership of the leased object are carried entirely or almost entirely by the lessee are classified as finance leases. All other leases are classified as operating leases. For the lease classification, the economic substance of the transaction is conclusive rather than the legal form.

At inception of an arrangement, the Company assesses whether the lease classifies as a finance or operating lease.

Operating leases

If the Company acts as lessee in an operating lease, the leased property is not capitalised. Benefits received as an incentive to enter into an agreement are recognised as a reduction of rental expense over the lease term. Lease payments and benefits regarding operating leases are recognised to the profit and loss account on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the benefits from the use of the leased asset.

Financial instruments

Financial instruments include investments in shares and bonds, trade and other receivables, cash items, loans and other financing commitments, derivative financial instruments, trade payables and other amounts payable. These financial statements contain the following financial instruments: loans and receivables (both purchased and issued) .

Financial assets and liabilities are recognised in the balance sheet at the moment that the contractual risks or rewards with respect to that financial instrument originate.

Financial instruments are derecognised if a transaction results in a considerable part of the contractual risks or rewards with respect to that financial instrument being transferred to a third party.

Financial instruments (and individual components of financial instruments) are presented in the consolidated financial statements in accordance with the economic substance of the contractual terms. Presentation of the financial instruments is based on the individual components of financial instruments as a financial asset, financial liability or equity instrument.

Financial and non-financial contracts may contain terms and conditions that meet the definition of derivative financial instruments. Such an agreement is separated from the host contract if its economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms and conditions as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value with changes in fair value recognised in the profit and loss account.

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

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

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

Trade and other receivables

Receivables are initially valued at the fair value of the consideration to be received. Receivables are subsequently valued at the amortised cost price. If there is no premium or discount and there are no transaction costs, the amortised cost price equals the nominal value of the accounts receivable. If payment of the receivable is postponed under an extended payment deadline, fair value is measured on the basis of the discounted value of the expected revenues. Provisions for bad debts are deducted from the carrying amount of the receivable.

Current liabilities

Current liabilities are measured after their initial recognition at amortised cost on the basis of the effective interest rate method. The effective interest is directly recorded in the profit and loss account.

Redemption payments regarding non-current liabilities that are due next year, are presented under current liabilities.

Intangible fixed assets

Intangible fixed assets are only recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the assets will flow to the Company and the cost of that assets can be measured reliably.

Intangible fixed assets are measured at acquisition or construction cost, less accumulated amortisation and impairment losses.

Expenditures made after the initial recognition of an acquired or constructed intangible fixed asset are included to the acquisition or construction cost if it is probable that the expenditures will lead to an increase in the expected future economic benefits, and the expenditures and the allocation to the asset can be measured reliably. If expenditures do not meet these conditions, they are recognised as an

Document to which the KPMG report (1765186-20W00172515AVN) dated 21 August 2020 also refers.

expense in the profit and loss account.

The accounting principles for the determination and recognition of impairments are included under the section Impairments of fixed assets.

Tangible fixed assets

Tangible fixed assets are recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the cost of that asset can be measured reliably.

Land and buildings, plant and equipment and other fixed operating assets, are measured at cost, less accumulated depreciation and impairment losses.

If the payment terms for the purchase price of a tangible fixed asset is beyond normal credit terms, the cost of the asset is based on the present value of the obligation.

In the event that tangible fixed assets are acquired in return for a non-monetary asset, the costs of the tangible fixed asset is determined on the basis of fair value, insofar as the exchange transactions result in a change in the economic conditions and the fair value of the acquired asset or the specified asset can be measured reliably.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of the tangible fixed assets. Tangible fixed assets under construction and prepayments on tangible fixed assets are not depreciated. Depreciation starts as soon as the asset is available for its intended use, and ends at decommissioning or divestment.

The following rates of depreciation are applied:

- Buildings and structure: 10%
- Machinery and equipment: 20-33%

The Company determines the depreciable amount without taking into account a residual value.

Maintenance expenditures are only capitalised when the maintenance leads to extension of the useful life of the asset and/or future performance units regarding the assets. A provision is recognised for expected costs of periodic major maintenance to buildings and equipment.

Assets retired from active use are measured at the lower of book value or net realisable value.

Impairments of fixed assets

Tangible and intangible fixed assets are assessed at each reporting date whether there is any indication of an impairment. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the higher of value in use and net realisable value. If it is not possible to assess the recoverable amount for an individual asset, the recoverable amount is assessed for the cash-generating unit to which the asset belongs.

When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recognised for the difference between the carrying amount and the recoverable amount. If there is an impairment loss for a cash-generating unit, the loss is first allocated to goodwill allocated to the cash-generating unit. Any residual loss is allocated to the other assets of the unit pro rata to their book values.

Subsequently, at each reporting date, the entity assesses whether there is any indication that an impairment loss that was recorded in previous years has been decreased. If any such indication exists, then the recoverable amount of the asset or cash-generating unit is estimated.

Reversal of a previously recognised impairment loss only takes place when there is a change in the assessment used to determine the recoverable amount since the recognition of the last impairment loss. In such case, the carrying amount of the asset (or cash-generating unit) is increased to its recoverable amount, but not higher than the carrying amount that would have applied (net of depreciation) if no impairment loss had been recognised in previous years for the asset (or cash-generating unit) .

An impairment loss of goodwill is not reversed in a subsequent period.

Contrary to what is stated before, at each reporting date the recoverable amount is assessed for the following assets (irrespective of whether there is any indicator of an impairment) :

- intangible assets that have not been put into use yet;
- intangible assets that are amortised over a useful life of more than 20 years (counting from the moment of initial operation/use).

Disposal of fixed assets

Fixed assets available for sale are measured at the lower of their carrying amount and net realisable value.

Financial fixed assets

The accounting policies for financial fixed assets are included under the heading 'Financial Instruments'. The accounting policies for the tax receivable and the deferred tax assets are included under the heading 'Income Tax Expense'.

Impairment of financial assets

A financial asset that is not measured at (1) fair value with value changes reflected in the profit and loss account, or at (2) amortised cost or lower market value, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, with negative impact on the estimated future cash flows of that asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes significant financial difficulty of the issuer or obligor, breach of contract such as default or delinquency in interest or principal payments, granting to the borrower a concession that the Company would not otherwise consider, indications that a debtor or issuer will enter bankruptcy or other financial restructuring, the disappearance of an active market for that financial asset because of financial difficulties or observable data indicating that there is a measurable decrease in the estimated future cash flow, including adverse changes in the payment status of borrowers or issuers, indications that a debtor or issuer is approaching bankruptcy, and the disappearance of an active market for a security. Indicators for subjective evidence are also considered together with objective evidence of impairments, such as the disappearance of an active market because an entity's financial instruments are no longer publicly traded, a downgrade of an entity's credit rating or a decline in the fair value of a financial asset below its cost or amortised cost.

The entity considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and financial assets that are held to maturity) both individually and on a portfolio basis. All individually significant assets are assessed individually for impairment. The individually significant assets that are not found to be individually impaired and assets that are not individually significant are then collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of collections and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in the profit and loss account and reflected in an allowance account against loans and receivables or investment securities held to maturity. Interest on the impaired asset continues to be recognised by using the asset's original effective interest rate.

Impairment losses below (amortised) cost of investments in equity instruments that are measured at fair value through profit or loss, are recognised directly in the profit and loss account.

When, in a subsequent period, the amount of an impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss (up to the amount of the original cost).

Receivables

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

Cash and cash equivalents

Cash and cash equivalents are measured at nominal value. If cash and cash equivalents are not readily available, this fact is taken into account in the measurement.

Cash and cash equivalents denominated in foreign currencies are translated at the balance sheet date in the functional currency at the exchange rate ruling at that date. Reference is made to the accounting policies for foreign currencies.

Cash and cash equivalents that are not readily available to the Company within 12 months are presented under financial fixed assets.

Share capital

Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under shareholders' equity. Payments to holders of these instruments are deducted from the shareholders' equity as part of the profit distribution.

Financial instruments that are designated as a financial liability by virtue of the economic reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the profit and loss as financial income or expense. The purchase of own shares is deducted from the other reserves.

Provisions

A provision is recognised if the following applies:

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

Rights and obligations resulting from contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent, are not recognised. Recognition occurs when the consideration to be received is not (or no longer) in balance with the performance obligation of the Company and this imbalance has adverse effects for the Company.

If all or part of the payments that are necessary to settle a provision are likely to be fully or partially compensated by a third party upon settlement of the provision, then the compensation amount is presented separately as an asset.

Document to which the KPMG report (1765186-202000172515AVN) dated 21 August 2020 also refers.

Provisions are measured at the nominal value of the best estimate of the expenditures that are expected to be required to settle the liabilities and losses.

Current liabilities

At initial recognition, current liabilities are recognised at fair value. After initial recognition, current liabilities are measured at amortised cost. If no premium or discount and transaction costs are applicable, the amortised cost is equal to the nominal value of the liability.

Revenue recognition

Revenue relates to recharged R&D and headquarter related costs with a mark-up to the parent company based on a contractual agreement. Revenue from services rendered is accounted for in net turnover at the fair value of the consideration received or receivable, net of allowances and rebates. Revenues are recognised in the profit and loss account when the revenue amount can be determined in a reliable manner, collection of the related compensation to be received is probable and the costs already incurred and (possibly) yet to be incurred can be determined reliably.

Gross operating result

The company does not engage in capitalised research and development programmes. Research and development costs incurred in the financial reporting period are recognised in the income statement.

Wages

Employee benefits are charged to the profit and loss account in the period in which the employee services are rendered and, to the extent not already paid, as a liability on the balance sheet. If the amount already paid exceeds the benefits owed, the excess is recognised as a current asset to the extent that there will be a reimbursement by the employees or a reduction in future payments by the Company.

Foreign pension plans

Pension plans that are comparable in design and functioning to the Dutch pension system, having a strict segregation of the responsibilities of the parties involved and risk sharing between the said parties (the Company, the fund and its members) are recognised and measured in accordance with Dutch pension plans.

For foreign pension plans that are not comparable in design and functioning to the Dutch pension system, a best estimate is made of the liability as at balance sheet date. This liability is measured on the basis of an actuarial measurement principle generally accepted in the Netherlands.

Dutch pension plans

Basic principle is that the pension charge to be recognised for the reporting period is equal to the pension contributions payable to the pension provider over the period. In so far as the payable contributions have not yet been paid as at balance sheet date, a liability is recognised. If the contributions already paid at balance sheet date exceed the payable contributions, a receivable is recognised to account for any repayment by the fund or settlement with contributions payable in future.

Document to which the KPMG report (1765186-20W00172515AVN) dated 21 August 2020 also refers.

If, on the basis of an administration agreement with respect to a group plan / multi-employer plan, there is an obligation at balance sheet date, a provision is recognised when it is probable that the measures, which are necessary for the recovery of the existing funding ratio at balance sheet date, will result in an outflow of resources and the amount thereof can be estimated reliably.

If there are adjustments to rights accrued as at the balance sheet date arising from future salary increases that are already committed to at the balance sheet date and which shall be paid by the Company, a provision is recognised.

In addition, a provision is included as at balance sheet date for existing additional commitments to the fund and the employees, provided that it is probable that there will be an outflow of funds for the settlement of the commitments and it is possible to reliably estimate the amount of the commitments. The existence or non-existence of additional commitments is assessed on the basis of the administration agreement concluded with the fund, the pension agreement with the employees and other (explicit or implicit) commitments to the employees. The provision is measured at the best estimate of the present value of the anticipated costs of settling the commitments as at balance sheet date. The pre-tax discount rate reflects the market interest rate at the balance sheet date of high quality corporate bonds / yield on government bonds. Risks that have already been taken into account in estimating future expenditure are not included in the discount rate.

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

Government subsidies

Government grants are initially recognised in the balance sheet as deferred income when there is reasonable assurance that they will be received and the company will comply with the conditions associated with the grant. Grants that compensate the company for expenses incurred are recognised in the profit and loss under 'Other income' on a systematic basis in the same period in which the expenses are recognised. Grants that compensate the company for the cost of an asset are recognised in the profit and loss account under 'Other income' on a systematic basis over the useful life of the asset.

Financial income and expenses

Interest income and expenses are recognised on a pro rata basis, taking account of the effective interest rate of the assets and liabilities to which they relate. In accounting for interest expenses, the recognised transaction expenses for loans received are taken into consideration.

Exchange differences that arise from the settlement or translation of monetary items are recorded in the profit and loss account in the period in which they occur, unless hedge-accounting is applied.

Dividends to be received from participations and securities not carried at net asset value are recognised as soon as Mitsubishi Electric R&D Centre Europe B.V. has acquired the right to them.

Changes in the value of financial instruments recognised at fair value are recorded in the profit and loss account.

Income tax expense

Corporate income tax comprises the current and deferred corporate income tax payable and deductible for the reporting period. Corporate income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity, or to business combinations.

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

If the carrying amount of assets and liabilities for financial reporting purposes differ from their values for tax purposes (tax base), this results in temporary differences.

For taxable temporary differences, a provision for deferred tax liabilities is recognised.

For deductible temporary differences, available tax losses and unused tax credits, a deferred tax asset is recognised, but only to the extent that it is probable that future taxable profits will be available for set-off or compensation. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The measurement of deferred tax liabilities and deferred tax assets is based on the tax consequences following from the manner in which the company expects, at the balance sheet date, to realise or settle its assets, provisions, debts and accrued liabilities. Deferred tax assets and liabilities are measured at nominal value.

Cash flow statement

Based on the exemption as provided in article 360.104 of the Dutch Accounting Standards, the Company has not prepared a cash flow statement. The consolidated financial statements of the parent company, Mitsubishi Electric Corporation ('MELCO'), Japan, are available on demand at the office.

2.4 Notes to the balance sheet

ASSETS

FIXED ASSETS

1 Intangible fixed assets

Movements in intangible fixed assets were as follows:

	<u>Software</u> EUR
<i>Balance as at 1 April 2019</i>	
Actual cost	1,162,183
Accumulated amortisation	-1,051,183
Carrying amount start financial year	<u>131,000</u>
<i>Changes in carrying amount</i>	
Investments	90,302
Currency translation differences	-4
Amortisation for the year	-67,896
Disposals	-1,609
Disposal accumulated amortisation	1,609
	<u>22,402</u>
Balance as at 31 March 2020	
Actual cost	1,258,593
Accumulated amortisation	-1,105,191
Carrying amount end financial year	<u>153,402</u>

The Board of Managing Directors believes that there has not been any permanent diminution in the value of the company's intangible fixed assets. Consequently, no impairment loss was recognised in the financial year ended 31 March 2020.

2 Tangible fixed assets

Movements in tangible fixed assets were as follows:

	Buildings and structure	Machinery and equipment	Total
	EUR	EUR	EUR
<i>Balance as at 1 April 2019</i>			
Actual cost	905,555	5,541,478	6,447,033
Accumulated amortisation	-796,995	-4,354,980	-5,151,975
Carrying amount start financial year	<u>108,560</u>	<u>1,186,498</u>	<u>1,295,058</u>
<i>Changes in carrying amount</i>			
Investments	25,217	460,765	485,982
Amortisation for the year	-21,810	-556,879	-578,689
Disposals	-	-97,957	-97,957
Disposal accumulated amortisation	-	97,957	97,957
Currency translation differences	-	-6,982	-6,982
	<u>3,407</u>	<u>-103,096</u>	<u>-99,689</u>
<i>Balance as at 31 March 2020</i>			
Actual cost	930,762	5,809,001	6,739,763
Accumulated amortisation	-818,795	-4,725,599	-5,544,394
Carrying amount end financial year	<u>111,967</u>	<u>1,083,402</u>	<u>1,195,369</u>

The Board of Managing Directors believes that there has not been any permanent diminution in the value of the company's tangible fixed assets. Consequently, no impairment loss was recognised in the financial year ended 31 March 2020.

3 Financial fixed assets

Movements in financial fixed assets were as follows:

	<u>Deferred tax assets</u>	<u>Tax credit receivable</u>	<u>Total</u>
	EUR	EUR	EUR
Carrying amount as at 1 April 2019	220,037	7,124,798	7,344,835
Grant for the current year	-	2,529,710	2,529,710
Increasing	3,320	-218	3,102
Reclass to short-term	-	<u>-2,330,417</u>	<u>-2,330,417</u>
Carrying amount as at 31 March 2020	<u>223,357</u>	<u>7,323,873</u>	<u>7,547,230</u>

The deferred tax assets relate to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The deferred tax assets mainly relate to the company's pension obligation and prepaid expenses regarding partnerships with labs in France and other European countries.

The tax credit receivable relates to a tax credit for the financing of the R&D costs incurred from the French tax authorities. The tax credit is calculated based on the R&D costs incurred over the period 2014 until 2019. According to French law, companies can request a tax reimbursement after a 3- year period.

CURRENT ASSETS

4 Trade and other receivables

	<u>31-03-2020</u>	<u>31-03-2019</u>
	EUR	EUR
Trade debtors	106,368	111,582
Receivables from affiliated companies	13,676,538	9,912,575
Value added tax receivable	430,053	419,746
Other receivables and accrued income	<u>3,207,157</u>	<u>4,975,401</u>
	<u>17,420,116</u>	<u>15,419,304</u>

The trade and other receivables are due within one year.

The receivable from affiliated company relates to Mitsubishi Electric's Euro Cash Management System, established from July 1999. As at 31 March 2020, EUR 13,677 thousand is deposited to Mitsubishi Electric Finance Europe PLC (31 March 2019: EUR 9,913 thousand). This affiliated company manages the cash balances of Mitsubishi Electric Corporation group companies against an interest rate based on one-month Libor of average 0.00% (2018/2019: 0.00%).

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Document to which the KPMG report (1765186-20W00172515AVN) dated 21 August 2020 also refers.

Value added tax receivable

	<u>31-03-2020</u>	<u>31-03-2019</u>
	EUR	EUR
Value added tax receivable MERCE France	339,605	370,000
Value added tax receivable MERCE UK	<u>90,448</u>	<u>49,746</u>
Total	<u>430,053</u>	<u>419,746</u>

Other receivables and accrued income

	<u>31-03-2020</u>	<u>31-03-2019</u>
	EUR	EUR
Tax credit receivable	2,435,313	4,231,967
Advance payments	771,844	591,816
Other receivables	-	<u>151,618</u>
Total	<u>3,207,157</u>	<u>4,975,401</u>

The tax credit receivable relates to the short-term receivable for the financing of the R&D costs incurred from the French tax authorities. Please refer to note 3.

5 Cash and cash equivalents

All cash at banks is available on demand.

6 Shareholders' equity

	Issued and paid up share capital	Translation reserve	Other reserves	Result after taxation	Total
	EUR	EUR	EUR	EUR	EUR
Balance as at 1st April 2018	720,000	-199,411	23,464,207	2,151,130	26,135,926
Appropriation of result	-	-	2,151,130	-2,151,130	-
Dividend payment	-	-	-1,030,000	-	-1,030,000
Result for the year	-	-	-	1,933,123	1,933,123
Translation difference	-	77,280	-	-	77,280
Balance as at 31st March 2019	720,000	-122,131	24,585,337	1,933,123	27,116,329

	Issued and paid up share capital	Translation reserve	Other reserves	Result after taxation	Total
	EUR	EUR	EUR	EUR	EUR
Balance as at 1st April 2019	720,000	-122,131	24,585,337	1,933,123	27,116,329
Appropriation of result	-	-	1,933,123	-1,933,123	-
Dividend payment	-	-	-990,000	-	-990,000
Result for the year	-	-	-	2,084,392	2,084,392
Translation difference	-	-188,854	-	-	-188,854
Balance as at 31st March 2020	720,000	-310,985	25,528,460	2,084,392	28,021,867

The Company's authorized capital, amounting to EUR 3,600,000 (2018/2019: EUR 3,600,000), consists of 8,000 ordinary shares of EUR 450 each, of which 1,600 ordinary shares have been issued.

In 2019/2020, the company distributed and paid EUR 990,000 dividend (2018/2019: EUR 1,030,000) to its shareholders.

The translation reserve relates to the financial figures of the UK branch which are translated from the functional currency GBP to the presentation currency EUR.

Proposed appropriation of result

The General Meeting of Shareholders will be asked to approve the following appropriation of the 2019/2020 result after taxation: an amount of EUR 2,084,392 to be added to the retained earnings. The result after tax for 2019/2020 is included under net result for the financial year in shareholders' equity. The Company can only make payments to the shareholders and other parties entitled to the distributable profit insofar as (1) the Company can continue to pay its outstanding debts after the distribution (the so-called distribution test), and (2) the shareholders' equity exceeds the legal reserves and statutory reserves under the articles of association to be maintained (the so-called balance sheet test). If not, management of the Company shall not approve any distribution.

Document to which the KPMG report (1765186-20W00172515AVN) dated 21 August 2020 also refers.

7 Provision

The provisions relate to the pension provisions of the French branch.

The 2019/2020 pension provision fully relates to the pension scheme of the French Branch of MERCE. The French Branch pension provision as at 31 March 2020 amounted to EUR 661 thousand.

In France, the basic pension is topped up by compulsory supplementary pensions, which, like the basic pension, are financed on a pay-as-you go basis. For private-sector employees, the compulsory supplementary schemes are ARRCO, covering all categories of employees and AGIRC, covering only managerial and executive staff.

The basic pensions of the general scheme are paid by the Pensions and Occupational Risks Fund (CARSAT), the National Old-Age Insurance Fund for Employees of Île de France (in the case of the Paris region) and the General Social Security Fund (in the case of the Overseas Departments).

For private-sector employees, supplementary pensions are administered by ARRCO (Association for Employees' Supplementary Schemes), covering all categories of employees (managerial and nonmanagerial), and AGIRC (General Association of Retirement Institutions for Executives) covering only managerial and executive staff.

The calculation of supplementary retirement pensions is points-based. Each year, the amount of contributions paid on the basis of a reference salary or income is converted into points, taking into account the unit purchase value of the point for the relevant tax year. The pension paid to the employee will be contingent upon the number of points accrued during the total period of insurance of the employee and the age at which they retire. To calculate the pension, the number of points accrued during the total period of insurance is multiplied by the value of the point at the time the pension is calculated. In these schemes the amount of the pension is proportional to earnings over the total period of insurance, rather than the 25 best years as applicable in the basic scheme.

Contributions to the ARRCO scheme by non-executives are based on their total earnings up to three times the social security ceiling. Managerial and executive employees pay contributions to both the ARRCO and AGIRC schemes: up to one time the social security ceiling to ARRCO and beyond one time this ceiling to AGIRC based on their whole earnings and up to eight times the social security ceiling. The contribution rate is the point accrual rate multiplied by 125%.

Under both schemes, the normal retirement age is between 65 and 67, depending on date of birth. However, a wage earner may claim an early retirement pension as of the age of 55 or 57 (depending on date of birth). In this case, a reduction coefficient is applied to the pension.

Employees in foreign countries have pension schemes which are structured and operate differently from the Dutch pension system. For these foreign schemes, a best estimate has been made of the pension liability at the balance sheet date. The best estimate of the pension liability is in accordance with the actuarial projected unit credit method.

The calculation of the post-retirement pension obligation is performed annually by MERCE using the projected unit credit method.

The principal assumptions as at the balance sheet date are shown below:

- Discount rate: 0.85% (2018/2019: 1.65%)
- Social charges rate: 50% (2018/2019: 50%)
- Wages inflation rates: between 1.25% and 8.44% (2018/2019: between 1.25% and 4.44%)

The mortality table applied as 31 March 2020 is INSEE TD-TV 14-16 (from French National Statistical Institute)

Pension provision

	<u>31-03-2020</u>	<u>31-03-2019</u>
	EUR	EUR
Carrying amount as per 1 April	530,000	517,000
Provision increased during the year	<u>131,415</u>	<u>13,000</u>
Total	<u>661,415</u>	<u>530,000</u>

8 Current liabilities

	<u>31-03-2020</u>	<u>31-03-2019</u>
	EUR	EUR
Trade creditors	2,337,478	1,619,546
Taxes and social security contributions	377,512	400,179
Other liabilities	<u>1,738,632</u>	<u>2,019,787</u>
	<u>4,453,622</u>	<u>4,039,512</u>

Current liabilities are due within one year.

Other liabilities

	<u>31-03-2020</u>	<u>31-03-2019</u>
	EUR	EUR
Social charges accrual	422,281	1,030,376
Holiday allowance and holidays	423,720	439,851
Bonuses and overtime payable	63,838	64,251
Patent bonuses	153,303	175,506
Other accruals	<u>675,490</u>	<u>309,803</u>
	<u>1,738,632</u>	<u>2,019,787</u>

Disclosure of off-balance sheet commitments

The company has entered into an agreement dated 1 November 2013 with Scribe Bail, by which the company has rented premises in Rennes from Scribe Bail Tertiaire for a 9-year period from 1 November 2013 to 31 October 2022.

On 29 April 2014, SCI Beaulieu replaced Scribe Bail without any modification in the previous contract.

The annual rental charge amounts to EUR 280,000 per annum. The total lease commitment amounts to EUR 723,333 and can be divided as follows:

< 1 year: 280,000

1-5 years: 443,333

There are no lease commitments outstanding for a period longer than five years.

Financial instruments

The board of directors, under the supervision of the main shareholder MELCO, has overall responsibility and sets rules for the company's risk management and control systems. They are reviewed regularly to reflect changes in (market) conditions and the company's activities. The board of directors oversees the adequacy and functioning of the entire system of risk management and Internal control, assisted by MELCO Group departments.

The day-to-day management and the board of directors regularly assess material risks to which the company is exposed to and take the necessary actions to manage and mitigate such risks satisfactorily. It is, and had been throughout the financial year, the company's policy that no trading in financial instruments shall be undertaken.

The risks can be divided into the various categories below.

Financial risk

The policy of the company regarding the use of financial instrument is to avoid risks. Financial instruments are not used for trading and speculation purposes. The financial instruments recognised in the financial statements consist solely primary financial instruments. The company's financial risks include foreign currency risks, interest rate risks, credit risks, and liquidity risks. The company is exposed to developments in the currency markets and to interest-rate developments. With respect to exchange rates, MERCE is affected primarily by changes in the GBP and JPY value in relation to EUR.

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers and tax credit receivables. Receivables and cash and cash equivalents contain credit risks. The trade receivables are primarily concentrated at one major client: MELCO.

Customer and parent company MELCO has been transacting with the company since its incorporation on 15 September 1995, and no impairment loss has been recognised against this customer. Management considers the credit risk as low, since all sales are made to a customer with sufficient creditworthiness. Management also considers the credit risk on tax credit receivables as low.

The Company only deals with financial institutions with good credit rating as assessed by international credit rating agencies. Cash and fixed deposits are placed in banks and financial institutions with good credit rating.

The credit risk on receivables and cash and cash equivalents is limited to the carrying amount of the outstanding balances as at 31 March 2020.

Document to which the KPMG report (1765186-20W00172516AVN) dated 21 August 2020 also refers.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the reputation of the company.

The company manages its liquidity risk with the view to maintaining a healthy level of cash and cash equivalents appropriate to the expected cash flows of the company

The company is not exposed to significant liquidity risk. The contractual cash flows of the financial liabilities do not differ significantly from their carrying amounts. The expected contractual cash outflows of current liabilities fall within one year. Furthermore, management considers the liquidity risk as low in view of the company's cash position and, if needed, its access to debt funding sources.

Interest rate risk

As at 31 March 2020 the interest rate risk relates to possible changes in the fair value of the cash held at banks. The company considers this interest rate risk as low.

The company's policy is not to use derivative financial instruments to control interest rate fluctuations.

Foreign currency risk

The company has exposure to foreign currency risk arising from its financial instruments which are denominated in foreign currencies; mainly in GBP and JPY. The company's policy is not to use derivative financial instruments to control any foreign currency fluctuations. The company considers the foreign currency risk as low since the transactions of the company are mainly based on EUR, which is the company's functional currency.

The board of directors is aware that the foreign currency risk is not fully mitigated. However, given the significant amount of shareholder's equity and the company's cash position this will not result in any significant financial risk.

During the normal course of business, the Company uses financial instruments that expose it to market, currency, interest, credit and liquidity risks. To control these risks, the Company has instituted procedures that are intended to limit the risks of unpredictable adverse developments in the financial markets and thus for the financial performance of the Company.

The fair value of most of the financial instruments recognised on the balance sheet, including receivables, securities, cash and cash equivalents and current liabilities, is approximately equal to their carrying amount.

Document to which the KPMG report (1765186-20W00172515AVN) dated 21 August 2020 also refers.

2.5 Notes to the profit and loss account**9 Net turnover**

	<u>2019/2020</u>	<u>2018/2019</u>
	EUR	EUR
UK branch	3,010,772	2,802,400
France branch	11,541,307	10,704,929
	<u>14,552,079</u>	<u>13,507,329</u>

Net turnover relates to recharged expenses to Mitsubishi Electric Corporation, Japan.

10 Other operating income

	<u>2019/2020</u>	<u>2018/2019</u>
	EUR	EUR
Tax credit facility	2,682,601	2,635,450
Government grants	76,836	60,075
Miscellaneous income	2,002	81,564
Total	<u>2,761,439</u>	<u>2,777,089</u>

The tax credit facility relates to a facility from the French tax authorities for financing research and development costs. The government grants relate to subsidies received for funding of R&D projects.

11 Research and development and headquarter related costs

	<u>2019/2020</u>	<u>2018/2019</u>
	EUR	EUR
Salaries and wages	4,697,742	5,507,186
Social security	1,764,019	76,205
Pension charges	235,613	707,298
Depreciation and amortisation costs	631,459	706,711
Research and development costs	2,778,295	2,769,402
Headquarter costs	681,234	501,274
Other operating expenses	<u>4,447,969</u>	<u>4,205,948</u>
Total	<u>15,236,331</u>	<u>14,474,024</u>

Other operating expenses

	<u>2019/2020</u>	<u>2018/2019</u>
	EUR	EUR
Rental and facility expenses	1,278,222	614,009
Travel expenses	615,803	122,828
School collaboration costs	688,261	-
Auditor and consultant fee	130,917	285,653
Other expenses	<u>1,734,766</u>	<u>3,183,458</u>
Total	<u>4,447,969</u>	<u>4,205,948</u>

Auditor's fees

	KPMG	Other KPMG
	Accountants	network
	N.V.	network
	<u>2019/2020</u>	<u>2019/2020</u>
	EUR	EUR
Audit of the financial statements	82,503	-
Other non-audit services	-	12,675
Total	<u>82,503</u>	<u>12,675</u>

	KPMG	Other KPMG
	Accountants	network
	N.V.	network
	<u>2018/2019</u>	<u>2018/2019</u>
	EUR	EUR
Audit of the financial statements	78,900	-
Other non-audit services	8,750	13,269
Total	<u>87,650</u>	<u>13,269</u>

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Document to which the KPMG report (1785186-20W00172515AVN) dated 21 August 2020 also refers.

Remuneration of directors

The company has three directors. The directors received remuneration for an amount of EUR 139,481 during the financial year 2019/2020 (2018/2019: EUR 141,621).

Staffing level

During the financial year 2019/2020, an average of 71 employees (2018/2019: 70 employees) were employed by the company. All employees were employed outside the Netherlands. This staffing level can be divided into the following staff categories:

2019/2020

	Active within the Netherlands	Active outside the Netherlands	Total
Management	-	3.00	3.00
Researchers	-	50.00	50.00
Administration	-	18.00	18.00
Average number of employees	-	71.00	71.00

2018/2019

	Active within the Netherlands	Active outside the Netherlands	Total
Management	-	3.00	3.00
Researchers	-	49.00	49.00
Administration	-	18.00	18.00
Average number of employees	-	70.00	70.00

12 Tax on result

	2019/2020	2019/2020	2018/2019	2018/2019
	%	EUR	%	EUR
Result before tax	-	2,118,780	-	1,861,015
Tax using the company's domestic tax rate	-25	-529,695	-25	-465,254
Movement in temporary differences	-	-2,804	-	-2,802
Effect of deferred tax on pensions	-	6,614	-	3,500
Tax exempt income	36	761,455	39	723,022
Current-year losses for which no deferred tax asset is recognised	-9	-200,986	-12	-231,974
Non-deductible expenses and other tax items	-3	-59,147	3	55,292
Effect of tax rate in foreign jurisdictions	-	-9,825	-1	-9,676
	-2	2,084,392	4	1,933,123

The local domestic tax rate for the Netherlands is 19.00% for results before tax up to EUR 200 thousand and 25.00% for results exceeding the EUR 200 thousand in 2019, 16.5% for results before tax up to EUR 200 thousand and 25.00% for results exceeding the EUR 200 thousand in 2020.

13 Related parties

Transactions with related parties include relationships between the company, Mitsubishi Electric Corporation group companies, the company's directors and executive officers (key management personnel). Based upon its agreement with its parent company, the company receives annual funding which is based on the expected R&D expenses of the company. Therefore, the annual funding differs per year and is disclosed in the profit and loss account as such. There were no transactions with related parties that were not on a commercial basis.

Subsequent events

The recent outbreak of the COVID-19 (Coronavirus) continues to impact the global economy and markets. At this time, the effects of the Coronavirus on our business have been limited. However, these events may impact our customers, supply chain, workforce and operations of our facilities, our markets and our liquidity. Accordingly, we are closely evaluating the recent developments and will take necessary actions. Contingency plans are being developed, monitored and implemented. Based on our current knowledge and available information, we do not expect Covid-19 to have an impact on our ability to continue as a going concern in the future.

Schiphol-Rijk, 21 August 2020
Mitsubishi Electric R&D Centre Europe B.V.

染谷 潤
Jun Someya
President of MERCE

岡 徹
Toru Oka
Director-A

DocuSigned by:

78058A08D3AD4A8...
Tatsuya Ishikawa
Director-B

3. Other information

3.1 Reference to the auditor's opinion

The independent auditor's report is set forth on the following pages.

3.2 Provisions of the Articles of Association relating to profit appropriation

Under article 14 of the Company's Articles of Association, the profit is at disposal of the General Meeting of Shareholders, which can allocate said profit either wholly or partly to the formation of - or addition to - one or more general or special reserve funds.

3.3 Branch offices

The Company has branch offices in France and the United Kingdom.



Independent auditor's report

To: the General Meeting of Shareholders of Mitsubishi Electric R&D Centre Europe B.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements for the year ended 31 March 2020 of Mitsubishi Electric R&D Centre Europe B.V., based in Schiphol-Rijk.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Mitsubishi Electric R&D Centre Europe B.V. as at 31 March 2020, and of its result for the year ended on 31 March 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- 1 the balance sheet as at 31 March 2020;
- 2 the profit and loss account for the year ended on 31 March 2020; and
- 3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. 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 Mitsubishi Electric R&D Centre Europe B.V. in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Report on the other information included in the annual report

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

- management report;
- other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

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



By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the management report, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

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

Our responsibilities for the audit of the financial statements

Our objective 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 and fraud during our audit.

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

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

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



- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities or operations. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities or operations for which an audit or review had to be carried out on the complete set of financial information or specific items.

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

Amstelveen, 21 August 2020

KPMG Accountants N.V.


J. Tunggalwidjaja RA