

REC Solar Japan Co., Ltd.

Financial Statements

for the year ended December 31, 2021

Independent Auditor' Report

March 25,2022

The Director
REC Solar Japan Co.,Ltd.

PKF HIBIKI AUDIT CORPORATION
Osaka, Japan

Motohiro Muto
Designated Engagement Partner
Certified Public Accountant

Opinion

Pursuant to Article 436, Section 2, paragraph 1 of the Companies Act, we have audited the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets, the cashflow statement and notes to the financial statements of REC Solar Japan Co.,Ltd. (the "Company") and applicable to the fiscal year from January 1, 2021 to December 31, 2021.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position and results of operations of the Company applicable to the fiscal year ended December 31, 2021 in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error 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 these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments while the purpose of the audit of the financial statements is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves presentation in accordance with accounting principles generally accepted in Japan.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partner do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Restriction on use

The financial information of the Company has been prepared for purposes of providing information to REC Solar Group to enable it to prepare the financial statements of the group. The financial information may therefore not be suitable for another purpose. This report is intended solely for the use of REC Solar Japan Co.,Ltd. and REC Solar Group in connection with the audit of the financial statements of REC Solar Group and should not be used by other parties, except REC Solar Group (Including Reliance), government and bankers.

REC Solar Japan Co., Ltd.
Balance Sheet
for the year ended December 31, 2021

	Yen		Yen
ASSETS	<u>2021</u>	LIABILITIES AND EQUITY	<u>2021</u>
Current assets:		Current liabilities:	
Cash and deposits	¥ 37,514,609	Current portion of lease liability	¥ 11,849,195
Receivables		Payables	
Accounts receivables	67,766,127	Accounts payables	25,273
Intercompany advanced payments	172,459,470	Intercompany payables	-
Other receivables	<u>7,060,533</u>	Income taxes payables	1,426,198
Total trade and other receivables	247,286,130	Accrual expenses	6,586,173
		Provision for bonuses	3,687,417
Inventories	<u>1,899,823</u>	Other current liabilities	<u>198,064</u>
		Total current liabilities	<u>23,772,320</u>
Other current assets (Note 4)	<u>3,392,745</u>	Non-current liabilities :	
Total current assets	<u>290,093,307</u>	Provision for retirement benefits	<u>12,948,022</u>
		Total non-current liabilities	<u>12,948,022</u>
Non-current assets:		Total liabilities	<u>36,720,342</u>
Property, plant and equipment (Notes 3)	<u>11,658,795</u>	Net assets:	
Investments and others		Shareholders' equity (Note 5)	
Deferred tax assets	10,084,286	Share capital	60,000,000
Guarantee deposits and others	24,614,000		
Total Investments and others	<u>34,698,286</u>	Retained earnings	<u>239,730,046</u>
		Total shareholder's net assets	<u>299,730,046</u>
Total non-current assets	<u>46,357,081</u>	TOTAL LIABILITIES AND EQUITY	<u>¥ 336,450,388</u>
TOTAL ASSET	<u>¥ 336,450,388</u>		

REC Solar Japan Co., Ltd.
Statement of Income
for the year ended December 31, 2021

	Yen
	<u>2021</u>
Net sales	¥ 651,147,868
Cost of sales	<u>512,971,269</u>
Gross profit	138,176,599
Selling, general and administrative expenses: (Note 6)	130,046,938
Operating income	<u>8,129,661</u>
Other income (Note 7):	8,528,295
Other expenses (Note 8):	<u>1,367,449</u>
Profit before income taxes	<u>15,290,507</u>
Income taxes (Note 9):	<u>2,290,498</u>
Net profit	<u>13,000,009</u>

REC Solar Japan Co., Ltd.
Statement of Changes in Net Assets
for the year ended December 31,2021

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total net assets</u>
	Yen	Yen	Yen
Balance as January 1, 2021	<u>¥ 60,000,000</u>	<u>¥ 226,730,037</u>	<u>¥ 286,730,037</u>
Changes during the year			
Net income for the period	-	13,000,009	13,000,009
Balance as of December 31, 2021	<u>¥ 60,000,000</u>	<u>¥ 239,730,046</u>	<u>¥ 299,730,046</u>

REC Solar Japan Co., Ltd.
Statement of Cash Flow
for the year ended December 31, 2021

	2021
	Yen
OPERATING ACTIVITIES:	
Income before income taxes	¥ <u>15,290,507</u>
Adjustments for:	
Income taxes-paid	(4,243,100)
Depreciation and amortisation	23,376,442
Interest expenses	1,214,816
Changes in assets and liabilities:	
Decrease in trade and other receivables	112,084,789
Decrease in inventories	1,472,622
Decrease in trade and other payables	(130,571,579)
Increase in liability for retirement benefits	<u>-</u>
Total adjustments	3,333,990
Net cash provided by operating activities	<u>18,624,497</u>
FINANCING ACTIVITIES:	
Proceeds of finance leases	-
Repayment of lease obligations	<u>(24,484,824)</u>
Net cash used in financing activities	<u>(24,484,824)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(5,860,327)</u>

1. Basis of Preparation

The accompanying financial statements have been prepared in accordance with the provisions set forth in and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 financial statements to conform to the classifications used in 2021.

The financial statements are stated in Japanese yen, the currency of the country in which REC Solar Japan Co., Ltd. (the "Company") is incorporated and operates.

2. Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

Cash and cash equivalents comprises securities, time deposits, and certificates of deposit with a maturity of three months or less at the time of purchase. They are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

(b) Inventories

The acquisition cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of acquisition cost or net realizable value, and the costs are determined by primarily using the weighted-average method. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

(c) Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. The Company and its domestic consolidated subsidiaries depreciate property, The Company and its domestic consolidated subsidiaries depreciate property, plant and equipment (other than buildings acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated using the straight-line method) using the declining balance method. Property, plant and equipment of its consolidated foreign balance method. Property, plant and equipment of its consolidated foreign subsidiaries are depreciated using straight-line method over their estimated useful lives.

The estimated useful lives are principally as follows:

Buildings and structures 2 years
Furniture and fixtures 3 - 6 years

(d) Leases

All finance lease transactions are capitalized to recognize leased assets and lease obligations in the balance sheet and depreciated by the straight-line method over the lease period, with no residual value.

(e) Right-of-use assets

Right-of-use assets are depreciated by the straight-line method with no residual value.

(f) Income Taxes

The provision for income taxes is computed based on the profit before tax included in the statement of income. The asset and liability method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Deferred income taxes are measured by applying currently enacted tax laws to the temporary differences.

(g) Provision for Bonuses

Provision for bonuses is stated at an estimated amount of bonuses which the Company is obliged to pay to its employees.

(h) Provision for Retirement Benefits

Provision for retirement benefits for employees has been recorded mainly at an amount calculated based on the retirement benefit obligations and the fair values of the pension plan assets as of the balance sheet date as adjusted for unrecognized actuarial gain or loss. The retirement benefit obligations are allocated to each period by the straight-line method over the estimated years of service of the eligible employees.

(i) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

Notes to the Financial Statements

(j) Accounting estimates as to the impact of the Covid-19

Due to the impact of COVID-19, demand has been changing as the situations of customers and market environments of countries and regions around the world have been changing. Based on the information available, the Company is developing estimates for accounting purposes that include those for the recoverability of deferred tax assets. These estimates are based on assumptions that project a gradual turn toward recovery over time despite changes in demand for each product in each country and region caused by a repeated pattern of growth and retreat of COVID-19.

3. Property, Plant and Equipment

Property, plant and equipment at December 31, 2021 are as follows:

	Yen
	<u>2021</u>
Buildings and structures	¥ 11,658,795
Furniture and fixtures	-
Total	<u>¥ 11,658,795</u>

4. Other current assets

The composition of "Other current assets" for the year ended December 31, 2021 are as follows:

	Yen
	<u>2021</u>
Prepayments to suppliers	¥ 3,392,745
Total	<u>¥ 3,392,745</u>

5. Equity

In accordance with the Companies Act of Japan (the “Act”), the Company provides legal retained earnings which is included in retained earnings. The Act requires that an amount equal to at least 10% of the amounts to be disbursed as distribution of earnings be appropriated to the legal retained earnings until the total of the legal retained earnings plus the legal capital surplus or either of them equals 25% of the share capital account.

The Act further provides that neither legal capital surplus nor the legal retained earnings is available for the payment of dividends, but either may be used to reduce or eliminate accumulated deficits by a resolution of the shareholders, Or may be transferred to the share capital account by a resolution of the shareholders. The Act also provides that, if the total amount of legal capital surplus and the legal retained earnings exceeds 25% of the amount of share capital, the excess may be distributed to the shareholders, either as a return of capital or as dividends, subject to the approval of the shareholders.

6 Selling, general and administrative expenses

The composition of “Selling, general and administrative expenses” for the year ended December 31, 2021 is as follows:

	Yen
	<u>2021</u>
Salaries	¥ 61,791,304
Legal welfare expenses	8,742,513
Severance pay	4,718,049
Welfare expenses	4,320
Sales and marketing costs	6,419,415
Travel allowance	944,996
Traveling and transportation expenses	1,699,507
Entertainment	503,628
Telephone and Internet	2,399,578
Commissions	591,095
Consultancy fee	7,949,990
Membership fee	123,000
Utilities expenses	279,206
Rent	780,000
Storage expense	4,268,550
Insurance expenses	3,859,494
Office supplies	610,745
Repair costs	772,806
Property tax	95,500
Books and subscription	58,800
Depreciation expenses (ROU)	23,317,608
Depreciation expenses	58,834
Miscellaneous expenses	46,000
	<u>¥ 130,034,938</u>

7. Other Income

The composition of “Other income” for the year ended December 31, 2021 is as follows:

	Yen
	<u>2021</u>
Interest income	¥ 2,710
Other income	5,934,992
Foreign exchange income	2,590,593
Total	<u>¥ 8,528,295</u>

8. Other Expenses

The composition of “Other expenses” for the year ended December 31, 2021 is as follows:

	Yen
	<u>2021</u>
Interest expense	¥ 1,214,816
Foreign exchange loss	152,633
Total	<u>¥ 1,367,449</u>

9. Income Taxes

The tax effects of temporary differences which gave rise to significant portions of deferred tax assets and deferred tax liabilities as at December 31, 2021 were business taxes, provision for bonuses and provision for retirement benefits.

10. Related Party Transactions

Transactions with related party, for the year ended December 31, 2021 are as follows:

	Yen
	<u>2021</u>
REC Solar Pte Ltd:	
Transactions:	
Purchase of Solar panels	¥ 494,786,429
Payment on behalf	420,756
Balances:	
Advance paid	¥ 172,459,470

11. Concerning Significant Subsequent Events

None