REC Solar (Japan) Co., Ltd

Financial Statements

For the year ended December, 2022

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBER OF REC SOLAR JAPAN CO., LTD

Opinion

We have audited the financial statements of REC Solar Japan Co., Ltd (the "Company"), which comprise the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on 5 to 24.

In our opinion, the accompanying financial statements of the Company for the year ended 31 December 2022 are prepared, in all material aspects, in accordance with the Company's significant accounting policies stated in Note 3 of the financial statements.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). 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 Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 3 to the financial statements, which describes the basis of accounting. The financial statements are prepared for the sole purpose of the Company's Board of Directors' internal reporting of the Company's financial position as at 31 December 2022, and the financial performance, changes in equity and statement of cash flows to its intermediate and ultimate holding companies, Reliance New Energy Limited and Reliance Industries Limited. As a result, the financial statements and report may, therefore, not be suitable for another purpose.

Our report is intended solely for the Board of Directors of the Company for the internal reporting to the Company's intermediate and ultimate holding companies, Reliance New Energy Limited and Reliance Industries Limited, respectively, and should not be used by, or distributed to, any of its components, or any other third party. This report, including the conclusion, has been prepared for and only for the Company in accordance to the terms of our engagement letter and for no other purpose. We do not accept or assume any responsibility for any other purpose or to anyone other than the Board of Directors of the Company for our work, for our report, or for the conclusions we have reached in our report.

Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of the Company for the year ended 31 December 2021 were unaudited under SSAs.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBER OF REC SOLAR JAPAN CO., LTD

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Statement of Management set out on page 1.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with the significant accounting policies stated in Note 3 of the financial statements, 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, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Directors' responsibilities include overseeing the Company's financial reporting process.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBER OF REC SOLAR JAPAN CO., LTD

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

(a) 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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

(b) Obtain an understanding of internal controls 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 controls.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

(d) Conclude on the appropriateness of the 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.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

Public Accountants and
Chartered Accountants
Singapore
Lorraine Tan

31 March 2023

REC Solar (Japan) Co., Ltd.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	Note	2022	2021
		JPY	**JPY**
			(unaudited)
Current assets			
Cash and cash equivalents	8	31,441,066	37,514,609
Trade and other receivables	6	224,359,775	75,956,219
Prepayments	5	61,524,461	175,852,215
Inventories	7	1,444,881	1,899,823
		318,770,183	291,222,866
Non-current assets			
Trade and other receivables	6	160,000	24,614,000
Property, plant and equipment	4	-	11,658,795
Deferred tax assets		8,444,596	8,444,596
		8,604,596	44,717,391
Total assets		327,374,779	335,940,257
Current liabilities			
Trade and other payables	10	1,500,318	1,375,396
Accrual expenses	11	11,082,978	10,273,590
Lease liabilities	9	-	11,849,195
Income taxes payables		183,943	4,896,900
		12,767,239	28,395,081
Non-current liabilities			
Provision for retirement benefits		12,871,389	10,974,001
		12,871,389	10,974,001
Total liabilities		25,638,628	39,369,082
Equity			
Share capital	17	60,000,000	60,000,000
Retained earnings		241,736,151	236,571,175
Total equity		301,736,151	296,571,175
Total liabilities and equity		327,374,779	335,940,257

Sebastien Luque
Chief Financial Officer

REC Solar (Japan) Co., Ltd.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2022

	Note	2022 JPY	2021 JPY (unaudited)
Revenue	12	478,247,021	651,141,364
Other income	13	-	5,916,051
Finance income	14	1,952,568	2,593,303
Total Income		480,199,589	659,650,718
Cost of sales		(342,781,148)	(496,164,536)
Employee benefits expenses		(69,239,161)	(74,261,661)
Depreciation expenses		(11,658,795)	(23,376,442)
Rental of office/warehouse		(9,035,511)	(5,048,550)
Sales and marketing costs		(1,211,156)	(6,419,415)
Freight costs		(7,291,933)	(16,800,229)
Travelling expenses		(2,507,592)	(1,699,507)
Entertainment		(551,656)	(503,628)
Telephone and internet		(2,312,129)	(2,399,578)
Consultancy fee		(9,493,100)	(7,949,990)
Insurance expenses		(2,769,224)	(3,859,494)
Bank charges		(347,911)	(591,095)
Other operating expenses		(10,669,090)	(1,967,116)
Finance expenses	14	(1,473,564)	(1,367,449)
Profit before income tax		8,857,619	17,242,028
Income tax expense	15	(3,692,643)	(7,400,890)
Net Profit		5,164,976	9,841,138

Sebastien Luque
Chief Financial Officer

REC Solar (Japan) Co., Ltd.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2022

	Share capital	Retained earnings	Total equity
	JPY	JPY	JPY
Balance at 1 January 2021 (unaudited)	60,000,000	226,730,037	286,730,037
Total comprehensive income for the year			
Profit for the year, representing total comprehensive income for the year	-	9,841,138	9,841,138
Balance as 1 January 2022 (unaudited)	60,000,000	236,571,175	296,571,175
Total comprehensive income for the year			
Profit for the year, representing total comprehensive income for the year	-	5,164,976	5,164,976
Balance at 31 December 2022	60,000,000	241,736,151	301,736,151

Sebastien Luque
Chief Financial Officer

REC Solar (Japan) Co., Ltd.

STATEMENT OF CASH FLOWS
Year ended 31 December 2022

	2022	2021
	JPY	JPY (unaudited)
Operating activities		
Income before income taxes	8,857,619	17,242,028
Adjustments for:		
Depreciation of plant and equipment	-	58,834
Depreciation of right-of-use assets	11,658,795	23,317,608
Finance income	(1,952,568)	(2,593,303)
Finance expenses	1,473,564	1,367,449
Operating cashflows before movements in working capital	20,037,410	39,392,616
Changes in trade and other receivables	(9,565,802)	31,066,815
Changes in inventories	454,942	1,472,622
Changes in trade and other payables	2,162,868	(43,757,129)
Changes in provisions	1,897,388	(1,974,021)
Interest received	36,880	2,710
Income tax paid	(8,461,600)	(6,364,300)
Net cash from operating activities	6,562,086	19,839,313
Financing activity		
Repayment of lease liabilities	(12,242,412)	(24,484,824)
Interest expense paid on lease liabilities	(393,217)	(1,214,816)
Net cash used in financing activity	(12,635,629)	(25,699,640)
Net decrease in cash and cash equivalents	(6,073,543)	(5,860,327)
Cash and cash equivalent at beginning of year	37,514,609	43,374,936
Cash and cash equivalent at end of year	31,441,066	37,514,609

Sebastien Luque
Chief Financial Officer

REC Solar (Japan) Co., Ltd.
Notes to Financial Statements
For the year ended 31 December 2022

These notes form an integral part of the non-statutory financial statements (“financial statements”).

1 Purpose of the non-statutory financial statements

The non-statutory financial statements (“financial statements”) of REC Solar Japan Co., Ltd (the “Company”) are prepared for the sole purpose of the Company’s Board of Directors’ internal reporting of the Company’s financial position as at 31 December 2022, and the financial performance, changes in equity and statement of cash flows to its intermediate and ultimate holding companies, Reliance New Energy Limited and Reliance Industries Limited (“Group”).

2 General

REC Solar Japan Co., Ltd is a Company incorporated in Japan. The address of the Company’s registered office is Shiodome City Center 5F, 1-5-2 Higashi-shinbashi, Minato-ku, Tokyo 105-7105, Japan.

The principal activities of the Company are those relating to the trading of solar panels.

The Company’s immediate holding company is REC Solar Holdings AS, a holding company incorporated in Norway.

The financial statements have been prepared on a going concern basis, which assumes the Company will be able to meet its obligations and make repayment on its liabilities during foreseeable future.

The financial statements were authorised for issue by the Board of Directors on 31 March 2023.

3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Statement of compliance

The non-statutory financial statements of the Company have been prepared in accordance with the Company’s significant accounting policies as listed in Note 3 of the financial statements.

3.2 Basis of preparation

The financial statements have been prepared on a historical cost convention except as disclosed in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

3.3 Functional and presentation currency

The financial statements are presented in Japanese Yen, which is the Company’s functional currency.

REC Solar (Japan) Co., Ltd.
Notes to Financial Statements
For the year ended 31 December 2022

3.4 Use of estimates and judgements

The preparation of the financial statements in conformity with the Company's significant accounting policies requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3.5 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in profit or loss.

3.6 Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets

<u>Classification of financial assets</u>

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

REC Solar (Japan) Co., Ltd.
Notes to Financial Statements
For the year ended 31 December 2022

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost, except for short-term balances when the effect of discounting is immaterial.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses ("ECL") on trade and other receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers historical loss rates for each category of customers and adjusts to reflect current and forward-looking macroeconomic factors affecting the ability of the customers to settle the receivables.

The Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 180 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

REC Solar (Japan) Co., Ltd.
Notes to Financial Statements
For the year ended 31 December 2022

The Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default, and (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Write-off policy

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date except for assets for which the simplified approach was used.

REC Solar (Japan) Co., Ltd.
Notes to Financial Statements
For the year ended 31 December 2022

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments are recognised at the proceeds received, net of direct issue costs.

Trade and other payables

Trade and other payables are measured subsequently at amortised cost, using the effective interest method, except for short-term balances when the effect of discounting is immaterial.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired.

3.7 Cash and Cash Equivalents

Cash and cash equivalents comprise of cash held at banks. They are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

3.8 Property, Plant and Equipment

Plant and equipment are carried at cost, less accumulated depreciation and any accumulated impairment losses.

REC Solar (Japan) Co., Ltd.
Notes to Financial Statements
For the year ended 31 December 2022

Depreciation is recognised so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	10 to 28 years
Office and IT equipment	3 to 7 years
Furniture and fixtures	3 to 10 years

The estimated useful lives, residual values and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in profit or loss.

Fully depreciated assets still in use are retained in the financial statements.

3.9 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 realisable value, and the costs are determined by primarily using the weighted-average method.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

3.10 Leases

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

As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

REC Solar (Japan) Co., Ltd.
Notes to Financial Statements
For the year ended 31 December 2022

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.11 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Provisions for bonuses

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

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions for Retirement Benefits

Retirement allowance is a lump-sum payment from an employer to an employee when the employment is terminated. In Japan, retirement allowance is traditionally given as a reward for lifetime employment and as financial support for life after retirement.

When a Company establishes a retirement allowance plan which differs from the legal obligations, the employer is required by the Labour Standards Act to stipulate the provisions in the Company work rules. These include, among others, the scope of eligible employees, method of calculation and payment date. The documentation must be submitted to the Labour Standards Inspection Office with an opinion letter from the employees' representative.

The Company may determine the arbitrary payment level by multiplying the base wage by the number of service years.

3.12 Share capital

Ordinary shares are classified as equity.

REC Solar (Japan) Co., Ltd.
Notes to Financial Statements
For the year ended 31 December 2022

3.13 Revenue

Revenue from sales of goods in the ordinary course of business is recognised when the Company satisfies a performance obligation ("PO") by transferring control of a promised good to the customer. The amount of revenue recognised is the amount of the transaction price towards this satisfied PO.

The transaction price for each PO in the contract refers to the stand-alone selling prices of the promised goods. Transaction price is the amount of consideration in the contract to which the Company expects to be entitled in exchange for transferring the promised goods.

Sales are recognised when the Company has delivered the products to the customers, the customers have accepted the products and the collectability of the receivable is reasonably assured. Sales are presented, net of goods and services tax.

3.14 Finance income and expense

Finance income and finance expense comprise interest income, interest expense, net gain or loss on financial assets at fair value through profit and loss ("FVTPL") and foreign currency gain or loss on financial assets and liabilities.

Interest income or expense is recognised using the effective interest method.
The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest rate method.

Finance expenses comprise net foreign currency losses and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of a qualifying asset.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

3.15 Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

REC Solar (Japan) Co., Ltd.
Notes to Financial Statements
For the year ended 31 December 2022

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 recognise 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 tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

3.16 Consumption tax

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

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4 Property, plant and equipment

Details	ROU Buildings	Furniture	Leasehold improvement	IT & office equipment	Total
	JPY	JPY	JPY	JPY	JPY
Cost					
As at 1 January 2021 (unaudited)	78,851,798	1,754,965	9,987,156	5,943,290	96,537,209
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
As at 31 December 2021 (unaudited)	78,851,798	1,754,965	9,987,156	3,901,210	94,495,129
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Retirement	(78,851,798)	(1,754,965)	(9,987,156)	(3,901,210)	(94,495,129)
As at 31 December 2022	-	-	-	-	-
Depreciation					
As at 1 January 2021 (unaudited)	43,875,395	1,754,965	9,987,156	5,884,456	61,501,972
Additions	23,317,608	-	-	58,834	23,376,442
Disposals	-	-	-	-	-
Retirement	-	-	-	(2,042,080)	(2,042,080)
As at 31 December 2021 (unaudited)	67,193,003	1,754,965	9,987,156	3,901,210	82,836,334
Additions	11,658,795	-	-	-	11,658,795
Disposals	-	-	-	-	-
Retirement	(78,851,798)	(1,754,965)	(9,987,156)	(3,901,210)	(94,495,129)
As at 31 December 2022	-	-	-	-	-
Net Book Value					
As at 31 December 2022	-	-	-	-	-
As at 31 December 2021 (unaudited)	11,658,795	-	-	-	11,658,795

Right-of-use assets (“ROU”) are presented together with individual categories of property, plant and equipment of the same class.

During the year, the lease for office space expired.

REC Solar (Japan) Co., Ltd.
Notes to Financial Statements
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5 Prepayments

	2022 JPY	2021 JPY
Advance payment	59,552,341	172,459,470
Insurance	1,122,120	1,148,303
Office rental	850,000	2,244,442
	61,524,461	175,852,215

Advance payment pertains to prepayment made to REC Solar Pte. Ltd., a related party, for purchase of solar panels in the future .

6 Trade and other receivables

	2022 JPY	2021 JPY (unaudited)
Current		
Trade receivables	219,207,802	67,766,127
Other receivables	4,301,973	8,190,092
Office rental deposit	850,000	-
	224,359,775	75,956,219
Non-current		
Office rental and other deposits	160,000	24,614,000
	160,000	24,614,000

<u>Trade receivables</u>

The average credit period on sale of goods is 60 days (2021 : 60 days). No interest is charged on the outstanding balance.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

A trade receivable is written off when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

7 Inventories

	2022 JPY	2021 JPY (unaudited)
Finished goods	1,188,954	1,530,260
Goods in transit	146,420	260,056
Packaging material	109,507	109,507
	1,444,881	1,899,823

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Notes to Financial Statements
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8 Cash and cash equivalents

	2022 JPY	2021 JPY (unaudited)
Cash and bank balances	31,441,066	37,514,609

9 Lease liabilities

	2022 JPY	2021 JPY (unaudited)
Contractual payments due in 1 year	-	12,242,412
Less: Unearned interest	-	(393,217)
	-	11,849,195
Analysed as:		
Current	-	11,849,195
Non-current	-	-
	-	11,849,195

During the year, the lease for office space expired. The lease of the new office space is a short-term lease of 12 months from 1 May 2022 to 30 April 2023 and contains an extension option exercisable by the Company on a monthly renewal basis.

10 Trade and other payables

	2022 JPY	2021 JPY (unaudited)
Trade payables	20,530	25,273
Other payables	1,479,788	1,350,123
	1,500,318	1,375,396

Trade payables are non-interest-bearing and are generally on 30 to 60 days credit terms. Other payables are social security and payroll related withholding tax payables.

11 Accrued expenses

	2022 JPY	2021 JPY (unaudited)
Audit fees	5,800,000	4,500,000
Tax services fees	840,000	910,000
Bonus & sales commission	4,392,978	3,687,417
Logistic cost	-	960,000
Other	50,000	216,173
	11,082,978	10,273,590

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12 Revenue

The Company sells solar panels. The Company typically fulfils its performance obligations in accordance with the terms and conditions stated in the contract.

	2022 JPY	2021 JPY (unaudited)
Solar panel sales	473,335,605	649,567,382
Miscellaneous sales	4,911,416	1,573,982
	478,247,021	651,141,364

Revenue is recognised at a point of time when control over goods is transferred to the customers.

The external customers of the Company are Japan corporations. The payments for trade receivables are due within 60 days from the invoice date.

13 Other income

	2022 JPY	2021 JPY (unaudited)
Government grant	-	5,916,051
	-	5,916,051

Grants related to income recognised in the statement of profit or loss and other comprehensive income.

The above government grants awarded to the Company, include government subsidy for office rental support and government subsidy from Tokyo Metropolitan from impact of Covid-19 in 2021. There was no government subsidy granted in 2022.

14 Finance income and expenses

	2022 JPY	2021 JPY (unaudited)
Interest income from bank deposit	36,880	2,710
Net foreign currency gain	1,915,688	2,590,593
Finance income	1,952,568	2,593,303
Interest expense due to lease liabilities	(393,217)	(1,214,816)
Net foreign currency loss	(1,080,347)	(152,633)
Finance expenses	(1,473,564)	(1,367,449)

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15 Income tax

	2022 JPY	2021 JPY (unaudited)
Current tax		
Current year	3,692,643	7,016,930
Adjustments in respect of prior years	-	(1,256,000)
	3,692,643	5,760,930
Deferred tax		
Origination and reversal of temporary differences	-	1,639,960
	-	1,639,960
Income tax	3,692,643	7,400,890

Reconciliation of effective tax rate

The current year income tax expense is higher (2021: higher) than that resulting from applying the ordinary corporate statutory tax rate in Japan of 23.20% (2021: 23.20%).

The main differences are explained below:

	2022 JPY	2021 JPY (unaudited)
Profit before tax	8,857,619	17,242,028
Income tax using the ordinary corporate statutory tax rate in Japan of 23.20% (2021: 23.20%)	2,054,968	4,000,150
Effect of additional taxes applied on taxable income and corporate income tax	769,000	2,595,800
Non-deductible expenses	497,092	1,059,121
Overprovision in prior year	-	(1,256,900)
Tax effects recognised as deferred tax	-	1,639,960
Others	371,583	(637,241)
	3,692,643	7,400,890

The Company did not have unrecognised tax positions at of 31 December 2022 and 2021. The Company did not recognise any expense for interest and penalties related to uncertain tax positions during 2022 and 2021. The Company files Japan corporate, local corporate, local inhabitant, enterprise, and special local corporate tax returns.

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16 Related parties

REC Solar Holdings AS, incorporated in Norway, is the immediate holding company. Reliance New Energy Limited and Reliance Industries Limited are the intermediate holding company and ultimate holding company respectively, and both companies are incorporated in India.

Sister companies and related companies in these financial statements refer to members of the immediate holding company's group of companies and ultimate holding company's group of companies respectively. The balances are unsecured, interest-free, repayable on demand and expected to be settled in cash unless otherwise stated.

Key management personnel compensation

Key management personnel of the Company are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity.

Key management personnel compensation comprised:

	2022 JPY	2021 JPY (unaudited)
Salary and other short-term benefits	12,951,787	14,113,557

Certain directors of the Company are also employees of the ultimate holding company, immediate holding company or sister companies. No consideration is however owed to the ultimate holding company, immediate holding company, sister companies, as the directors are discharging their duties in their own individual capacities.

Other related party transactions

Other than disclosed elsewhere in the financial statements, the transactions with related parties are as follows:

	2022 JPY	2021 JPY (unaudited)
Sister companies		
Transactions:		
Purchase of Solar panels	342,480,257	494,786,429
Payment on behalf	319,544	420,756
	342,799,801	495,207,185

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17 Share capital

	2022	2021	2022	2021
	No. of shares	**No. of shares** (unaudited)	**$**	**$** (unaudited)
Fully paid ordinary shares,				
with JPY 1 par value:				
At January 1 and December 31	60,000,000	60,000,000	60,000,000	60,000,000

The Company has issued 60,000,000 ordinary shares which are fully paid.

18 Comparative figures

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements and to reflect the substance of the transactions. The reclassifications have no material impact to the Company.