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Qualitative Information on Consolidated Operating Results for the Year Ended March 31, 2020

Forward-looking statements contained in the report are judgments and forecasts made by the JAIC Group as of the end of the fiscal year under review.

(1) Outline of consolidated operating results

The consolidated operating results of the JAIC Group for the year ended March 31, 2020 (from April 1, 2019 to March 31, 2020) recorded operating revenue of 3,950 million yen (up 12.8% year-on-year), operating gross profit of 1,993 million yen (up 24.0 % year-on-year), operating profit of 716 million yen (up 143.6 % year-on-year), ordinary profit of 441 million yen (up 7,509.0 % year-on-year) and profit attributable to owners of parent of 343 million yen (down 40.5 % year-on-year). The breakdown of operating results and the background of our business activities are as follows.

(1-1) Breakdown of Operating Results

(a) Breakdown of operating revenue and operating cost

(Fund management fees)

Investment fund management fees decreased 12.0% by year-on-year to 134 million yen. This was attributable primarily to a decline in fees from some investment funds in line with the liquidation of investment funds and the changes in the fee structures during the previous consolidated fiscal year.

(Investment income)

Proceeds of sales of operational investment securities increased by 45.9% year-on-year to 2,768 million yen and realized capital gains, which are calculated by deducting cost of securities sold from proceeds of sales of operational investment securities, increased by 34.1 % year-on-year to 1,717 million yen.

As for private equity investment, the proceeds of sales of operational securities increased but realized capital gain ended roughly the same as the previous fiscal year. This was due to a decrease in sales of listed shares with higher investment returns compared with the previous fiscal year and the recording of a loss on sales as a result of a sale of unlisted shares with a large amount of investment by prioritizing the liquidation of shares, Meanwhile in project investment, the proceeds of sales of operational securities and realized capital gain increased from the previous fiscal year as the number of sale of projects increased from four in the previous fiscal year to seven in the fiscal year under review.
The total amount of investment write-offs and provision for allowance for possible investment losses decreased by 60.2% year-on-year to 283 million yen. In both the current fiscal year under review and the previous fiscal year, losses were recorded for investment assets whose sales were expected to fall below the investment amount. In the previous fiscal year, losses were recorded for the shares of an overseas investee company in which JAIC has invested in a large amount for a long period of time. Meanwhile, in the current fiscal year under review, the amount of loss declined since losses were recorded for shares of investee companies both in Japan and overseas in which JAIC has invested in a smaller amount. As a result, investment income, which is calculated by deducting investment write-offs and provision for allowance for possible investment losses from realized capital gains, increased by 151.3% year-on-year to 1,434 million yen.

(Fund interests income, etc.)
Fund interests income, etc. includes revenue from electricity sales and revenue from vegetable sales of the projects operated by the JAIC Group, interests income from the projects operated by other companies (net profit from the projects sourced from the revenue from electricity sales, gains from the sale of projects), interests income from private equity funds operated by other companies, interest and dividend income and other income.
The total amount of fund interests income, etc. for the current fiscal year under review decreased by 27.5% year-on-year to 1,028 million yen. Out of this, revenue from electricity sales and revenue from vegetable sales of the projects operated by the JAIC Group accounted for 914 million yen (down 15.0% year-on-year). The revenues dropped from the previous fiscal year since the decline in revenue from electricity sales of the projects sold during the previous fiscal year could not be covered by the revenue from the new projects. In addition, interests income from

the private equity funds operated by other companies decreased by 81.2% year-on-year to 59 million yen owning to a decline in gains on sale of shares by the funds.

(Fund interests losses, etc.)
Fund interests losses, etc. include cost of electricity sales and cost of producing vegetables of the projects operated by the JAIC Group, interests losses (costs, etc. of projects under construction) of the projects operated by other companies and interests losses, etc. of the private equity funds operated by other companies.
The total amount of fund interests losses etc. for the current fiscal year under review increased by 9.7% year-on-year to 617 million yen. Out of this, cost of electricity sales and cost of producing vegetables of the projects operated by the JAIC Group accounted for 583 million yen (up 14.3% year-on-year), reflecting an increase in cost of producing vegetables at vegetable plants compared with the previous fiscal year.

As a result, operating revenue increased by 12.8% year-on-year to 3,950 million yen, operating cost increased by 3.3% year-on-year to 1,956 million yen and operating gross profit increased by 24.0% year-on-year to 1,993 million yen.

(b) Selling, general and administrative expenses and operating income
The total amount of selling, general and administrative expenses decreased by 2.8% year-on-year to 1,277 million yen. The decrease was mainly due to a reduction in personnel expenses and administration outsourcing costs.
As a result, operating profit increased by 143.6% year-on-year to 716 million yen.

(c) Non-operating income, non-operating expenses and ordinary income
Non-operating income decreased by 66.9 % year-on-year to 32 million yen due mainly to a decline in foreign exchange gains that occur at the time of the collection of investment assets denominated in foreign currencies.
Non-operating expenses decreased by 20.3 % year-on-year to 307 million yen primarily reflecting a drop in interest expenses. In addition to the reduction of loans payable on a non-consolidated basis, loans payable for the projects sold during the previous fiscal year decreased.
As a result, ordinary profit increased by 7,509.0% year-on-year to 441 million yen.

(d) Extraordinary income and profit attributable to owners of parent

(Extraordinary income)

The Company is aggressively conducting early liquidation of assets other than operational investment assets based on its medium-term management plan of promoting the replacement of assets. For the previous fiscal year, total extraordinary income amounted to 723 million yen due mainly to the recording of gain on redemption of investment securities of 425 million yen and gain on sales of shares of subsidiaries and associates of 226 million yen. On the other hand, for the current fiscal year under review, total extraordinary income amounted to 189 million yen reflecting the recording of gain on sales of investment securities of 173 million yen etc.

For the previous fiscal year, total extraordinary loss amounted to 171 million yen due mainly to the provision for loss on liquidation of subsidiaries and associates of 63 million yen. On the other hand, loss on redemption of investment securities of 2 million yen (down 98.8% year-on-year) was recorded as extraordinary loss for the current fiscal year under review.

As a result, loss before income taxes increased by 12.7% year-on-year to 628 million yen.

(Profit attributable to owners of parent)

Total income taxes of 23 million yen (up 26.4% year-on-year) were recorded primarily for subsidiaries. In terms of tax, both in the current fiscal year under review and the previous fiscal year, JAIC conservatively estimated tax effect accounting and did not recognize deferred tax assets.

Profit/loss attributable to non-controlling interests represents the portion of profit/loss from the investment funds and projects operated by the JAIC Group which is attributable to investors other than the JAIC Group. In the current fiscal year under review, due to profit from the aforementioned investment funds and projects, resulting in a profit attributable to non-controlling interests of 261 million yen (compared to a loss attributable to non-controlling interests of 38 million yen for the previous year).

As a result, profit attributable to owners of parent decreased by 40.5% year-on-year to 343 million yen.

(1-2) Business Position

(a) Investment activities

For the current fiscal year under review, new investments decreased by 10.0%

year-on-year to 3,374 million yen in 22 companies/projects. As of March 31, 2020, the balance of investments increased year-on-year to 15,101 million yen in 130 companies/projects (compared to 13,951 million yen in 134 companies/projects as of March 31, 2019).

As for private equity investment, when JAIC's own capital is used, JAIC makes strategic investment in partner companies for project oriented investment in a selective manner based on business themes in line with its management philosophy in principle. When the capital of a fund is used, JAIC makes investment pursuant to the fund's investment policy.
For the current fiscal year under review, new investments significantly increased by 795.3% year-on-year to 1,224 million yen in 12 companies as a result of an increase in strategic investment.
The balance of investments was 8,405 million yen, roughly the same level of the previous fiscal year due to the sale of shares despite an increase in new investments. (compared to 8,437 million yen as of March 31, 2019).

Looking at project oriented investment for the current fiscal year under review, new investments decreased by 40.5% year-on-year to 2,150 million yen in 10 projects. The decline reflecting the fact that the size of mega solar projects that JAIC invested in during the current fiscal year under review was smaller than those during the previous fiscal year.
JAIC invested in three new and one existing mega solar projects. In addition, JAIC made additional investment in a vegetable plant and invested in an operator of an intermediate treatment facility for waste that can be used as law materials for biogas power generation. JAIC also invested in a project of nursing facilities. In addition, as new fields for project oriented investment, JAIC invested in logistics facility construction projects and a commercial building in Japan.
As for the sale of projects, JAIC sold or gained returns on four projects, including non-operating projects, with a capacity of 8.2 MW in total during the previous fiscal year. In the fiscal year under review, it sold seven operating projects with a capacity of 16.5 MW in total. Of the projects sold during the fiscal year under review, six projects with a capacity of 14.2 MW were transferred to the JAIC-Solar Fund, L.P., II, which is operated by the JAIC Group; therefore, they continue to be included in the number and amount of the balance of investments mentioned above. As a result, the balance of investments as of March 31, 2020 increased year-on-year to 6,696

million yen (compared to 5,514 million yen as of March 31, 2019).
As of March 31, 2020, JAIC, including JAIC-Solar Fund, L.P., Ⅱ, invested in 25 mega solar projects with the capacity of 97.5ＭＷ which are either currently selling electricity or are under construction or planning. Out of these mega solar projects, the portion that attributable to JAIC is 45.2ＭＷ in capacity. JAIC also invested in renewable energy projects other than mega solar projects including two biogas projects with the capacity of 1.6ＭＷ, one woody biomass project with the capacity of 2.0ＭＷ, and one wind power project with the capacity of 25.2ＭＷ at most.

(b) Management of investment funds
As of March 31, 2020, the number of investment funds, for which the JAIC Group is responsible for management, operation or provision of investment information, totaled 11, and the balance of total commitment amounts under management amounted to 17,390 million yen (compared to 10 investment funds with 16,494 million yen as of March 31, 2019).
In the fiscal year under review, JAIC established JAIC-Solar Fund, L.P., II, which invests in operating mega solar projects. On the other hand, the balance of total commitment amounts under management decreased as a result of foreign exchange fluctuations.

(2) Cash flows
(Cash flow from operating activities)
Net cash generated from operating activities decreased year-on-year to 124 million yen (compared to 299 million yen for the previous fiscal year), due mainly to the payment for purchase of investment funds of 1,590 million yen (compared to 964 million yen for the previous fiscal year) in line with the progress in investment activities.

(Cash flow from investing activities)
Net cash generated from investing activities decreased year-on-year to 147 million yen (compared to 1,224 million yen for the previous fiscal year) mainly due to a decline in proceeds from redemption of investment securities to 62 million yen (compared to 702 million yen for the previous fiscal year).

(Cash flow from financing activities)
Net cash used in financing activities decreased year-on-year to 1,617 million yen

(compared to 2,173 million yen for the previous fiscal year), reflecting a decrease in repayments of long-term borrowings as a result of changes in financing policy that had prioritized repayments.

Cash and cash equivalents as of March 31, 2020 decreased by 1,358 million yen from March 31, 2019 to 2,723 million yen, after deducting effect of exchange rate change on cash and cash equivalents of 12 million yen.

(3) Financial position

(Assets)

Total assets as of March 31, 2020 remained virtually unchanged year-on-year at 28,548 million yen (compared to 28,845 million yen as of March 31, 2019). While JAIC sold projects operated by the JAIC Group, there was an increase in the assets of projects those saw progress in construction.

Cash and deposits decreased year-on-year to 4,520 million yen (compared to cash and deposits of 7,108 million yen as of March 31, 2019). This mainly reflected repayments of loans payable and the exclusion of deposits held by projects those were sold during the fiscal year. Meanwhile, the amount included deposits attributable to the investment funds operated by the JAIC Group. Those deposits must be managed in accordance with each fund's partnership agreement, and are managed clearly separately from cash and deposits belonging to the JAIC Group. Cash and deposits belonging to the JAIC Group were cash and cash equivalents of 2,723 million yen as of March 31, 2020 (compared to 4,082 million yen as of March 31, 2019) in the consolidated statements of cash flows.

In addition, private equity investments conducted by the JAIC Group are highly affected by factors such as stock market fluctuations due to the nature of their business, and it is difficult to make a reasonable forecast of business results in the current volatile environment. As a result, the amount of funds recovered from private equity investments could decline significantly. Under these circumstances, the JAIC Group must maintain a certain balance of cash and deposits at all times to ensure not only the payment of expenses and interest and the repayment of loans payable but also the investment for future growth.

Property, plant and equipment mainly includes renewable energy power plant facilities of projects operated by the JAIC Group. Since the increase amount in facilities of projects those saw progress in construction exceeded the decrease amount in facilities due to the sale of projects, property, plant and equipment increased year-on-year to 12,119 million yen (compared to 10,656 million yen as of March 31, 2019).

In assets, operational investment securities as of March 31, 2020 decreased year-on-year to 9,848 million yen (compared to 10,242 million yen as of March 31, 2019) due to progress of the recovery of investments.
Allowance for possible investment losses as of March 31, 2020 amounted to 1,574 million yen (compared to 1,538 million yen as of March 31, 2019). The amount remained virtually unchanged year-on-year, due to the provision for investment losses in line with the devaluation of investment assets, despite the sale of investment assets with the provision for investment losses.
As a result, the investment loss provision ratio (ratio of allowance for possible investment losses to operational investment securities) as of March 31, 2020 was 16.0%, up 1.0 points from March 31, 2019.

(Liabilities)
Although JAIC procured new funds through project finance for projects operated by the JAIC Group, the balance of project finance decreased due to a decrease following repayments of JAIC's non-consolidated base loans payable and the sale of projects. As a result, total liabilities decreased year-on-year to 19,832 million yen (compared to total liabilities of 20,444 million yen as of March 31, 2019).
In liabilities, total of loans payable and bonds as of March 31, 2020 amounted to 17,334 million yen (compared to 19,552 million yen as of March 31, 2019). Of the foregoing, JAIC's non-consolidated base loans payable as of March 31, 2020 were 8,166 million yen (compared to 9,784 million yen as of March 31, 2019). The balance of loans payable by project finance and bonds for the projects operated by the JAIC Group as of March 31, 2020 amounted to 9,167 million yen (compared to 9,768 million yen as of March 31, 2019).

JAIC's non-consolidated base loans payable decreased year-on-year, reflecting the repayments of 1,617 million yen for the current fiscal year under review. JAIC repaid an additional 513 million yen in April 2020, reducing the balance to 7,653 million yen. JAIC will continue to reduce its non-consolidated loans payable in the future. On the other hand, project finance for the projects operated by the JAIC Group will not affect the financial soundness of the JAIC Group, since its source of payments is limited to the assets and revenues of the projects. Therefore, JAIC has a policy to continue to promote leveraged investment by expanding fund raising through project finance in a wide range of projects including renewable energy projects operated by the JAIC Group, thus enhancing its profitability without compromising on financial soundness.

(Net assets)
In net assets, total shareholders' equity as of March 31, 2020 increased year-on-year to 7,219 million yen (compared to 6,796 million yen as of March 31, 2019), due to the recording of a profit attributable to owners of parent. On the other hand, total assets remained virtually unchanged year-on-year. As a result, the equity ratio as of March 31, 2020 rose by 1.7 points year-on-year to 25.3% (compared to 23.6% as of March 31, 2019). Total net assets as of March 31, 2020 also increased year-on-year to 8,716 million yen (compared to 8,400 million yen as of March 31, 2019). Meanwhile, JAIC's non-consolidated equity ratio as of March 31, 2020 rose 5.7 points year-on-year to 44.6% (compared to 38.9% as of March 31, 2019). This is as a result of improvement in financial soundness in line with the reduction of loans payable.

（4）Forecast

（4-1）Impact of COVID-19

The risks of COVID-19 that are currently estimated are as follows. The risks that have manifested themselves are limited at present.

(a) Risks expected when selling listed shares

The selling share price may drop due to a weak stock market or IPOs of investee companies may be delayed.

(b) Risks expected when selling unlisted shares

Expected sale negotiations may not be completed or may be delayed or selling prices may drop due to purchasers' financing difficulties or deterioration of business performance of investee companies subject to the sale, caused by a weaker economic environment.

(c) Risks expected when selling projects

Expected sale negotiations may not be completed or may be delayed or selling prices may drop due to purchasers' financing difficulties caused by a weaker economic environment.

(d) Risks expected when evaluating existing investee companies

Loss on evaluation or allowance for loss may be incurred due to deterioration of business condition of the investee companies.

(e) Risks expected in project investments

Projects under construction may experience suspension of construction work due to requests by the central or local governments to shut down business. Renewable energy projects currently selling electricity may see an increase in output restraints due to reduced electricity consumption. Smart-agri projects may experience a decrease in sales to the restaurant industry due to clients' suspension of business.

(f) Risks expected in JAIC's sales activities

In its sales activities, JAIC is making efforts to reduce internal infection risks introducing telework to reduce the number of employees coming to the office by about 80%. Meetings with external parties are also currently limited to online meetings, as a rule. As a result, we expect that these may have a negative effect on cultivating new investments. There is also a risk that the efficiency in investment return activities may drop.

（4－2）Business results and dividend forecasts

The overall private equity investment business conducted by the Group (including investment partnerships) is significantly affected by changing factors such as stock markets, given the characteristics of the business. In addition, it has been difficult to forecast results reasonably in the rapidly changing environment. Therefore we do not disclose the results forecast. For the convenience of investors and shareholders, however, we disclose "result forecast consolidated under the Previous Accounting Standard" even though it doesn't have enough rationality.

JAIC disclosed results forecasts consolidated under the previous accounting standard as it intends to make efforts to achieve maximum results in the sale of investment assets in the fiscal year ending March 31, 2021 after understanding the risks described above and based on the assumption that their impact will be limited. For details, please refer to "2. Outlook for the fiscal year ending March 31, 2021 (April 1, 2020 to March 31, 2021)" on page 21 in the summary of consolidated financial results for the year ended March 31, 2020.

The "result forecast consolidated under the Previous Accounting Standard" and any other forward-looking statements in this document are based upon the information currently available to JAIC at the time of writing and certain assumptions. The achievement is not promised. Various factors could cause actual results to differ materially from these result forecasts.

The Group’s basic policy for profit allocation is to provide stable and continued dividends to its shareholders and at the same time to improve its retained earnings with the aim of activating its operational investment activities to develop a new revenue stream and strengthen its financial base. However, to our great regret, JAIC decided to pass its dividend in the fiscal year under review due to a large cumulative loss in the past consolidated fiscal years.

JAIC also expects no dividend payment for the fiscal year ending March 31, 2021 since cumulative losses of past years cannot be eliminated although it expects positive profit attributable to owners of parent in the forecasts consolidated under the previous accounting standard.

２. Basic Rationale for Selection of Accounting Standards

The JAIC Group intends to prepare consolidated financial statements based on Japanese standards in consideration of the statements’ period to period comparability and comparability between companies for the time being. With regard to the application of IFRS (International Financial Reporting Standards), JAIC intends to respond appropriately by taking into account the situations both in Japan and abroad.

(End)