

Japan Display Inc.

Consolidated Financial Results for Fiscal Year 2019 (Japanese GAAP)

(This is an English translation of an original Japanese-language document.)

Company name: Japan Display Inc. (“JDI”)
 Security code: 6740
 Listing: Tokyo Stock Exchange (First Section)
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Annual general meeting of shareholders: August 26, 2020
 Filing of FY 2019 securities report: August 26, 2020
 Commencement of dividend payments: -
 Supplementary materials for FY 2019 earnings results: Available
 Briefing for FY 2019 results: June 30, 2020 (for security analysts)

(Figures in this earnings report are rounded down to the nearest million yen.)

1. Consolidated Financial Results for FY 2019 (April 1, 2019 to March 31, 2020)

(1) Results of operations

(Millions of yen, except per share amounts, %)

| | FY 2019 | YoY Chg. | FY 2018 | YoY Chg. |
|---|-----------|----------|-----------|----------|
| Net sales | 504,022 | (20.8%) | 636,661 | (11.5%) |
| Operating profit (loss) | (38,536) | - | (27,230) | - |
| Ordinary profit (loss) | (57,758) | - | (40,367) | - |
| Net income (loss) attributable to owners of the parent... | (101,417) | - | (106,585) | - |
| Net income (loss) per share | | | | |
| -Basic (yen) | (116.05) | - | (128.41) | - |
| -Diluted (yen) | - | - | - | - |
| Return on equity (%) | (406.1%) | - | (303.8%) | - |
| Ordinary income (loss) to total assets (%) | (12.4%) | - | (7.1%) | - |
| Operating income (loss) to net sales (%) | (7.6%) | - | (4.3%) | - |
| Comprehensive income | (99,886) | - | (107,181) | - |
| Share of loss of entities accounted for using equity method | (10,007) | - | (8,862) | - |

(2) Financial position

(Millions of yen, except per share amounts, %)

| | Mar 31, 2020 | Mar 31, 2019 |
|--|--------------|--------------|
| Total assets | 389,746 | 538,502 |
| Net assets | 53,363 | 862 |
| Shareholders' equity ratio (%) | 13.1% | (0.2%) |
| Net assets per share | (39.91) | (1.37) |
| (Reference) Shareholders' equity | (51,103) | (1,162) |

(3) Cash flows

(Millions of yen)

| | Mar 31, 2020 | Mar 31, 2019 |
|---|--------------|--------------|
| Cash flows from operating activities | (87,111) | (6,604) |
| Cash flows from investing activities | 28,069 | (36,614) |
| Cash flows from financing activities | 57,682 | 30,968 |
| Cash and cash equivalents at end of period..... | 66,380 | 68,988 |

2. Dividends

(Yen, except %)

| | June 30 | Sep 30 | Dec 31 | FY-end | Total | Dividend ratio (consolidated) | % of dividends to net assets (consolidated) |
|--------------------|---------|--------|--------|--------|-------|-------------------------------|---|
| FY 2018 | - | 0.00 | - | 0.00 | 0.00 | - | - |
| FY 2019 | - | 0.00 | - | 0.00 | 0.00 | - | - |
| FY 2020 (forecast) | - | 0.00 | - | 0.00 | 0.00 | - | - |

3. Earnings forecast for 1Q-FY 2020 (April 1, 2020 – June 30, 2020)

Consolidated net sales for FY 2020 are expected to be down by approximately 15% - 20% YoY. For details, please refer to the attached “1. Fiscal Year Results Information (4) Business Prospects.”

(Millions of yen, except %)

| | 1Q-FY2020 | QoQ Change |
|------------------|-------------------|---------------|
| Sales | 85,000 ~ 89,000 | (6.0) ~ (1.6) |
| Operating Profit | (7,000) ~ (9,000) | - |

Notes:

(1) Changes in significant subsidiaries to scope of consolidation: None

Newly consolidated: -

Removed from consolidation: -

(2) Accounting changes in consolidated financial statements.

a) Changes in accounting policy in accordance with amendments to accounting standards: Yes

b) Changes in accounting policy other than (a) above: None

c) Changes in accounting estimates: None

d) Retrospective restatement: None

(3) Number of shares outstanding (common shares)

| | Mar 31, 2020 | Mar 31, 2019 |
|---|--------------|--------------|
| Number of shares outstanding (incl. treasury shares)· | 846,165,800 | 846,165,800 |
| Number of treasury shares..... | 3 | 3 |
| Average number of shares outstanding | 846,165,797 | 830,072,391 |

(Reference) Overview of Non-Consolidated Financial Results

1. Non-Consolidated Financial Results for FY 2019 (April 1, 2019 to March 31, 2020)

| (1) Results of operations | (Millions of yen, except per share amounts, %) | | | |
|-----------------------------|--|----------|-----------|----------|
| | FY 2019 | YoY Chg. | FY 2018 | YoY Chg. |
| Net sales | 481,316 | (24.1%) | 633,893 | (9.2%) |
| Operating income (loss) | (49,084) | - | (38,236) | - |
| Ordinary income (loss) | (56,280) | - | (42,615) | - |
| Net income (loss) | (114,965) | - | (119,586) | - |
| Net income (loss) per share | | | | |
| - Basic (yen) | (131.55) | - | (144.07) | - |
| - Diluted (yen) | - | - | - | - |

| (2) Financial position | (Millions of yen, except per share amounts, %) | |
|----------------------------------|--|--------------|
| | Mar 31, 2020 | Mar 31, 2019 |
| Total assets | 360,392 | 516,395 |
| Net assets | 8,761 | (28,662) |
| Shareholders' equity ratio (%) | 2.4% | (5.6%) |
| Net assets per share | (56.61) | (33.94) |
| (Reference) Shareholders' equity | 8,720 | (28,715) |

Note 1.

This financial report is not subject to audit procedures.

Note 2.

Proper use of earnings forecasts and other matters warranting special mention

Forward-looking information such as earnings forecasts in this document is based on information available to the company at the time the document was prepared and management's reasonable assumptions. Such information should not be interpreted as a guarantee of future performance or results. Furthermore, forward-looking information is necessarily subject to a number of factors that may cause actual results to differ materially from those results implied by the expectations suggested by such information.

How to access and obtain the contents of a briefing of FY2019 results

JDI plan to hold a briefing session of financial results for securities analysts and the video streaming of the briefing will be posted on JDI's website on same day or the next day.

The materials of the briefing will be released on TDnet and JDI's website on June 30, 2020

Attachments

1. Fiscal Year Results Information

(1) Overview of Results of Operations

Consolidated Results of Operations for FY 2019 (April 1, 2019 to March 31, 2020)

(Millions of yen, except per share amounts, %)

| Fiscal year | FY 2018 (April 1, 2018 to March 31, 2019) | | FY 2019 (April 1, 2019 to March 31, 2020) | | YoY Change (%) |
|--|--|-------------------|--|-------------------|----------------------|
| | Amount | % of net sales | Amount | % of net sales | |
| Mobile Device Category | 466,873 | 73.3% | 350,802 | 69.6% | (24.9%) |
| Automotive Category | 112,313 | 17.6% | 103,562 | 20.5% | (7.8%) |
| Non-Mobile Device Category | 57,475 | 9.0% | 49,656 | 9.9% | (13.6%) |
| Net sales | 636,661 | 100.0% | 504,022 | 100.0% | (20.8%) |
| Operating income (loss) | (27,230) | | (38,536) | - | - |
| Ordinary income (loss) | (40,367) | | (57,758) | - | - |
| Net income (loss) attributable to owners of the parent | (106,585) | | (101,417) | - | - |
| Net income (loss) per share (Yen) | (128.41) | | (116.05) | - | - |
| EBITDA* | 15,732 | 2.5% | (19,549) | - | - |

Notes: *. EBITDA = Operating profit + Depreciation (operating costs) + Amortization of goodwill

The business environment surrounding Japan Display Inc. (“JDI”) remained difficult in FY 2019 due to sluggish growth in the smartphone market, increased adoption of OLED displays by customers and intensified competition from display manufacturers in China. In addition, the novel coronavirus disease (Covid-19) pandemic caused disruptions in the global supply chain and a rapid drop in consumer spending during the fourth-quarter accounting period. JDI’s manufacturing volume suffered a decline due to a temporary suspension of production and lower capacity utilization at overseas back-end manufacturing facilities, including its manufacturing subsidiaries and EMS companies.

In response to this situation, JDI implemented structural reforms that included a significant reduction of its Japan workforce by more than 30%, a suspension of operations at the Hakusan Plant (Hakusan City, Ishikawa Prefecture), closure of the Mobara Plant back-end manufacturing line (V2) and a write-down of smartphone display production equipment (mainly business assets at the Hakusan Plant), in order to reduce fixed costs in the first half of the fiscal year. The effects of these structural reform began to be fully realized in the second half of the FY 2019, resulting in the reduction of fixed costs by approximately JPY 30 billion for the full year. It is expected that fixed costs will be additionally reduced by about JPY 20 billion in FY 2020. In December 2019, JDI started mass production shipments of its first OLED displays. Although the contribution of these displays to sales in FY 2019 was limited, a contribution to an expansion of the business portfolio from FY 2020 can be expected. Under the impact of the novel coronavirus pandemic, JDI made attempts to restart production at its overseas manufacturing facilities as quickly as possible and regain capacity utilization. However, the recovery of capacity utilization at its back-end manufacturing subsidiary in the Philippines, a country that imposed a prolonged quarantine on urban areas, was delayed, and this in particular had a major impact on display module production in the non-mobile product category.

As a result, JDI’s net sales for FY 2019 decreased by 20.8% year-on-year (YoY) to JPY 504,022 million. Despite the reduction in fixed costs due to the structural reforms described above, an operating loss of JPY 38,536 million was recorded owing to the decrease in sales (in the previous fiscal year a JPY 27,230 million loss was recorded). In addition, the company recorded an share of loss of entities accounted for using equity method of JPY10,007 million

as a non-operating loss in relation to JOLED Inc., a former equity-method affiliate, leading to an ordinary loss of JPY 57,758 million (a loss of JPY 40,367 million in the previous year). A net loss attributable to owners of the parent of JPY 101,417 million was recorded (a loss of JPY 106,585 million in the previous year) after accounting for an extraordinary loss of JPY 67,178 million in business restructuring expenses that included an impairment loss on fixed assets mainly in connection with the Hakusan Plant and early retirement benefits, and also a gain on the sale of investment securities of JPY 30,594 million from the transfer all shares held in JOLED Inc.

Below is an overview of sales in each of JDI's application categories in FY 2019.

Mobile Device Category

The Mobile Device Category includes displays for smartphones, tablets and other devices. Sales in FY 2019 in this category were JPY350,802 million (down 24.9% YoY) and accounted for 69.6% of company net sales.

As competition intensified due to sluggish growth in the smartphone market, the increased adoption of OLED displays by customers and increased production by competing manufacturers in China, JDI withdrew from unprofitable products and suspended operations at the Hakusan Plant. In addition, the impact of the Covid-19 pandemic led to restrictions on overseas back-end manufacturing and reduced demand from customers, leading to sales in the fourth quarter falling by 37.8% YoY to JPY79,319 million.

Automotive Category

This category contains sales of automotive displays such as cluster and head-up displays. FY 2019 sales in this category were JPY103,562 million (down 7.8% YoY), accounting for 20.5% of company net sales.

While demand for auto displays was stagnant under the impact of sluggish automobile sales in major regions due to China's economic slowdown and trade friction between the United States and China, back-end manufacturing was delayed partly due to the Covid-19 pandemic interrupting the supply of parts. For the fourth quarter, sales fell 17.0% YoY to JPY23,946 million.

Non-Mobile Category

This category includes displays for digital still cameras, wearable devices and other consumer electronics, industrial devices such as medical equipment monitors and income from patents. FY 2019 sales in this category were JPY49,656 million (down 13.6% YoY), accounting for 9.9% of net sales.

Sales of ultra-high-definition VR displays increased and sales of displays for wearable devices remained strong, but sales of displays for digital still cameras, which have a high ratio of sales, and notebook PCs, which were affected by US-China trade frictions, decreased. The back-end manufacturing of displays in the non-mobile category is mainly handled by JDI's manufacturing subsidiary in the Philippines. However, the prolonged quarantine of communities in the Philippines in response to the Covid-19 pandemic resulted in manufacturing continuing at a low operating rate even after production restarted. For the fourth quarter, sales decreased 13.5% YoY to JPY12,980 million.

Business Results for the Fourth Quarter

JDI's net sales for the fourth quarter of FY 2019 were JPY 116,246 million, a decline of JPY 55,084 million YoY that was due to lower demand in smartphone displays and the Covid-19 pandemic. While sales decreased sharply, the operating loss improved by JPY 13,896 million from the same period of the previous year to a loss of JPY 5,911 million, due to the effect of the structural reforms implemented in the first half of the FY 2019. An ordinary loss of JPY 11,125 million was recorded due to an share of loss of entities accounted for using equity method of JPY 1,495 million and maintenance costs of JPY 1,293 million for the Hakusan Plant, which was under a production suspension. In addition, JPY 4,954 million in business restructuring expenses and JPY 3,638 million in costs related to improper accounting treatments were recorded, while a gain on the sale of investment securities due to the transfer of JOLED Inc. shares of JPY 30,594 million result was recorded as extraordinary income. As a result, net income attributable to owners of the parent was JPY 9,468 million.

Quarterly Consolidated Results of Operations

FY 2018 (April 1, 2018 to March 31, 2019)

(Millions of yen)

| | 1Q | 2Q | 3Q | 4Q | FY 2018 |
|--|----------|---------|---------|----------|-----------|
| Mobile Device Category | 62,576 | 66,682 | 210,147 | 127,466 | 466,873 |
| Automotive Category | 28,935 | 27,694 | 26,830 | 28,852 | 112,313 |
| Non-Mobile Device Category | 11,769 | 16,614 | 14,080 | 15,011 | 57,475 |
| Net sales | 103,281 | 110,991 | 251,058 | 171,330 | 636,661 |
| Gross profit (loss) | 2,859 | 8,962 | 16,217 | (6,801) | 21,237 |
| Operating income (loss) | (8,422) | (3,338) | 4,337 | (19,807) | (27,230) |
| Ordinary income (loss) | (11,415) | (5,126) | (254) | (23,571) | (40,367) |
| Net income (loss) attributable to owners of the parent | (474) | (6,561) | (2,778) | (96,771) | (106,585) |

FY 2019 (April 1, 2019 to March 31, 2020)

(Millions of yen)

| | 1Q | 2Q | 3Q | 4Q | FY 2019 |
|--|----------|----------|---------|----------|-----------|
| Mobile Device Category | 53,683 | 106,839 | 110,959 | 79,319 | 350,802 |
| Automotive Category | 25,519 | 26,892 | 27,204 | 23,946 | 103,562 |
| Non-Mobile Device Category | 11,217 | 13,609 | 11,849 | 12,980 | 49,656 |
| Net sales | 90,421 | 147,341 | 150,013 | 116,246 | 504,022 |
| Gross profit (loss) | (16,784) | 1,114 | 10,915 | 3,354 | (1,399) |
| Operating income (loss) | (27,073) | (8,096) | 2,545 | (5,911) | (38,536) |
| Ordinary income (loss) | (31,207) | (12,122) | (3,302) | (11,125) | (57,758) |
| Net income (loss) attributable to owners of the parent | (78,913) | (25,246) | (6,726) | 9,468 | (101,417) |

(2) Overview of Financial Position

Assets, liabilities and net assets

At the end of FY 2019 (March 31, 2020), total assets were JPY 389,746 million, a decrease of JPY 148,756 million from the end of the previous fiscal year. This was mainly due to decreases of JPY 21,322 million in accounts receivable-trade, JPY 31,781 million in inventories due to inventory adjustments, JPY 60,061 million in property, plant and equipment based on the write-down of manufacturing equipment mainly at the Hakusan Plant and JPY 24,108 million in investments in securities due to the sale of JOLED Inc. shares. Liabilities were JPY 336,382 million, a decrease of JPY 201,257 million from the end of the previous fiscal year. This was mainly due to decreases of JPY 87,481 million in interest-bearing debt based on the refinancing with INCJ, Inc., JPY 87,153 million in accounts payable-trade and JPY 12,823 million in advances received. Net assets increased JPY 52,500 million to JPY 53,363 million at the end of the fiscal year. Despite a net loss attributable to owners of the parent of JPY 101,417 million, shareholders' equity increased by JPY 50,982 million from the end of the previous fiscal year as a result of the third-party allotments to Ichigo Trust and INCJ Inc. As a result, the shareholders' equity ratio was 13.1% (-0.2% at the end of the previous fiscal year).

(3) Overview of Cash Flows

At the end of the FY 2019 JDI had cash and cash equivalents of JPY 66,380 million, a decrease of JPY 2,608 million relative to the end of the previous fiscal year. Net cash used in operating activities in FY 2019 was JPY 87,111 million yen after accounting for losses before income, working capital expenditures and other items. Net cash generated from investing activities in FY 2019 was JPY 28,069 million, partly due to gains from sales of investment securities. As a result, free cash flow was reduced by JPY 59,042 million. Net cash provided by financing activities was JPY 57,682 million as a result of capital financing by issuing new shares and refinancing.

(4) Business Prospects

Net sales for FY 2020 (ending March 31, 2021) are expected to decline by 15-20% compared to FY 2019 due to the Covid-19 pandemic causing a drop in demand for smartphone and automobile displays. While profits will see an unavoidable decline due to the decrease in net sales, FY 2020 fixed costs are expected to decline by about JPY 20 billion YoY as the effects of the structural reforms implemented in the first half of FY 2019 will be spread over the next fiscal year. JDI will continue to work on boosting sales and further reducing fixed and variable costs in order to minimize the impact of the Covid-19 pandemic and improve its business performance.

The estimate for consolidated net sales and operating income for the first quarter of the FY 2020 (April 1, 2020 to June 30, 2020), which ends today, is shown below. Due to undetermined non-operating and extraordinary items, JDI is only providing estimates for net sales and operating income.

(Unit: billion yen)

| | 1Q-FY 2020 (Estimate) | 1Q-FY 2019 (Actual) |
|------------------|--------------------------|------------------------|
| Net sales | 85.0-89.0 | 90.4 |
| Operating income | (7.0)-(9.0) | (27.1) |

(5) Basic policy concerning the distribution of profits, and dividends for FY 2019 and FY 2020

JDI recognizes that returning profits to shareholders is an important management priority. However, in FY 2019 (ended March 31, 2020), the company recorded a net loss attributable to owners of the parent company, and retained earnings, which is the source of dividends, were negative. Therefore, it regrets that it will not distribute a dividend, a decision that was previously disclosed. Also, no dividends will be distributed for Class A preferred shares and Class B preferred shares.

In addition, in FY 2020 JDI will continue to make efforts to improve its business performance and financial condition, but owing to the considerable time needed to restore retained earnings, the company will continue to not pay a dividend.

JDI wishes to convey its deepest apologies to all of its shareholders, and will strive to improve its business performance as quickly as possible in order to meet shareholder expectations..

(6) Material Events Related to Going Concern Assumptions

JDI Group has recorded an operating loss and significant impairment losses for three consecutive fiscal years, along with a net loss attributable to owners of the parent for six consecutive fiscal years, in the consolidated fiscal year ended March 31, 2020 (FY 2019). Also, the Group had negative net worth at the end of the first three quarters in FY 2019. Thereby raising significant doubts about assumptions concerning JDI's ability to continue as a going concern.

JDI will take measures necessary to urgently resolve this situation. Please refer to our presentation slides for the financial results of the fourth quarter and full year of fiscal year 2019.

Details are shown in "3. Consolidated Financial Statements (5) Notes pertaining to the Consolidated Financial Statements a) Note related to going concern assumptions"

2. Basic views on selection of accounting standards

JDI currently applies Japanese accounting standards (JGAAP) to its consolidated financial statements for the purpose of making possible comparisons of these statements across fiscal years.

When appropriate the company will consider applying International Financial Reporting Standards (IFRS) depending on international data comparability conditions and other factors.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of Yen)

| | March 31, 2019 | March 31, 2020 |
|--|----------------|----------------|
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and deposits | 68,988 | 66,672 |
| Accounts receivable - trade | 92,225 | 70,903 |
| Accounts receivable - other | 49,699 | 48,148 |
| Merchandise and finished goods | 29,088 | 10,131 |
| Work in process | 23,167 | 13,202 |
| Raw materials and supplies | 18,612 | 15,753 |
| Other | 8,939 | 4,699 |
| Allowance for doubtful accounts | (103) | (81) |
| Total current assets | 290,618 | 229,428 |
| Non-current assets: | | |
| Property, plant and equipment | | |
| Buildings and structures | 196,776 | 192,880 |
| Accumulated depreciation | (90,229) | (95,124) |
| Buildings and structures, net | 105,546 | 97,755 |
| Machinery, equipment and vehicles | 438,468 | 407,970 |
| Accumulated depreciation | (374,469) | (381,687) |
| Machinery, equipment and vehicles, net | 63,999 | 26,282 |
| Land | 10,186 | 10,014 |
| Lease assets | 1,590 | 3,634 |
| Accumulated depreciation | (1,590) | (1,946) |
| Lease assets, net | 0 | 1,688 |
| Construction in progress | 18,687 | 3,890 |
| Others | 43,100 | 39,943 |
| Accumulated depreciation | (38,651) | (36,766) |
| Others, net | 4,448 | 3,176 |
| Total property, plant and equipment | 202,870 | 142,808 |
| Intangible assets: | | |
| Goodwill | 8,716 | 7,263 |
| Other | 3,190 | 1,661 |
| Total intangible assets | 11,906 | 8,924 |
| Investments and other assets: | | |
| Investment securities | 24,395 | 31 |
| Deferred tax assets | 361 | 318 |
| Other | 8,932 | 8,926 |
| Allowance for doubtful accounts | (581) | (692) |
| Total investments and other assets | 33,107 | 8,584 |
| Total non-current assets | 247,884 | 160,318 |
| Total assets | 538,502 | 389,746 |

(Millions of Yen)

| | March 31, 2019 | March 31, 2020 |
|---|----------------|----------------|
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable - trade | 175,592 | 88,439 |
| Electronically recorded obligations - operating | 2,817 | 893 |
| Short-term borrowings | 130,843 | 42,055 |
| Lease obligations | 0 | 455 |
| Income taxes payable | 1,445 | 2,587 |
| Provision for bonuses | 4,345 | 3,230 |
| Advances received | 101,923 | 89,099 |
| Other | 35,945 | 32,718 |
| Total current liabilities | 452,914 | 259,479 |
| Non-current liabilities: | | |
| Bonds with share acquisition rights | 25,000 | — |
| Long-term borrowings | 30,000 | 53,680 |
| Lease obligations | — | 1,810 |
| Net defined benefit liability | 20,052 | 15,579 |
| Other | 9,673 | 5,832 |
| Total non-current liabilities | 84,725 | 76,902 |
| Total liabilities | 537,639 | 336,382 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 114,362 | 190,562 |
| Capital surplus | 231,148 | 307,348 |
| Retained earnings | (348,833) | (450,251) |
| Treasury shares | (0) | (0) |
| Total shareholders' equity | (3,322) | 47,659 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | (1) | (0) |
| Foreign currency translation adjustment | 8,916 | 6,357 |
| Remeasurements of defined benefit plans | (6,754) | (2,913) |
| Total accumulated other comprehensive income | 2,160 | 3,444 |
| Share acquisition rights | 53 | 40 |
| Non-controlling interests | 1,972 | 2,219 |
| Total net assets | 862 | 53,363 |
| Total liabilities and net assets | 538,502 | 389,746 |

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income**Consolidated Statement of Income**

| | (Millions of Yen) | |
|---|-----------------------------------|-----------------------------------|
| | April 1, 2018 - March 31, 2019 | April 1, 2019 - March 31, 2020 |
| Net sales | 636,661 | 504,022 |
| Cost of sales | 615,423 | 505,421 |
| Gross profit (loss) | 21,237 | (1,399) |
| Selling, general and administrative expenses | 48,468 | 37,136 |
| Operating profit (loss) | (27,230) | (38,536) |
| Non-operating income | | |
| Interest income | 146 | 92 |
| Foreign exchange gains | 1,765 | 1,420 |
| Subsidy income | 832 | 113 |
| Rental income | 487 | 556 |
| Fiduciary obligation fee | 1,239 | 1,184 |
| Other | 1,425 | 1,628 |
| Total non-operating income | 5,896 | 4,996 |
| Non-operating expenses | | |
| Interest expenses | 2,789 | 4,196 |
| Share of loss of entities accounted for using equity method | 8,862 | 10,007 |
| Depreciation | 782 | 1,674 |
| Other | 6,598 | 8,340 |
| Total non-operating expenses | 19,032 | 24,219 |
| Ordinary income (loss) | (40,367) | (57,758) |
| Extraordinary income | | |
| Gain on change in equity | 12,656 | — |
| Gain on sales of investment securities | — | 30,594 |
| Total extraordinary income | 12,656 | 30,594 |
| Extraordinary losses | | |
| Business restructuring expenses | — | 67,178 |
| Impairment loss | 76,128 | — |
| Other | — | 4,103 |
| Total extraordinary losses | 76,128 | 71,282 |
| Income (loss) before income taxes | (103,839) | (98,446) |
| Income taxes - current | 2,654 | 3,038 |
| Income taxes - deferred | (218) | (315) |
| Total income taxes | 2,436 | 2,722 |
| Net income (loss) | (106,276) | (101,169) |
| Net income (loss) attributable to non-controlling interests | 309 | 247 |
| Net income (loss) attributable to owners of the parent | (106,585) | (101,417) |

Consolidated Statement of Comprehensive Income

| | (Millions of Yen) | |
|--|-----------------------------------|-----------------------------------|
| | April 1, 2018 - March 31, 2019 | April 1, 2019 - March 31, 2020 |
| Net income (loss) | (106,276) | (101,169) |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (1) | 1 |
| Foreign currency translation adjustment | (1,880) | (2,559) |
| Remeasurements of defined benefit plans, net of tax | 976 | 3,840 |
| Total other comprehensive income | (905) | 1,283 |
| Comprehensive income | (107,181) | (99,886) |
| Comprehensive income attributable to owners of the parent | (107,491) | (100,133) |
| Comprehensive income attributable to non-controlling interests | 309 | 246 |

(3) Consolidated Statement of Changes in Equity

For the fiscal year ended March 31, 2019

(Millions of Yen)

| | Shareholders' equity | | | | Total shareholders' equity |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | |
| Balance at beginning of current period | 96,863 | 213,648 | (242,247) | — | 68,263 |
| Changes of items during period | | | | | |
| Issuance of common stock | 17,499 | 17,499 | | | 34,999 |
| Net income (loss) attributable to owners of the parent | | | (106,585) | | (106,585) |
| Acquisition of treasury shares | | | | (0) | (0) |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | 17,499 | 17,499 | (106,585) | (0) | (71,586) |
| Balance at end of current period | 114,362 | 231,148 | (348,833) | (0) | (3,322) |

| | Accumulated other comprehensive income | | | | Share acquisition rights | Non-controlling interests | Total net assets |
|--|---|---|---|--|--------------------------|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | | |
| Balance at beginning of current period | — | 10,797 | (7,731) | 3,065 | 47 | 1,662 | 73,039 |
| Changes of items during period | | | | | | | |
| Issuance of common stock | | | | | | | 34,999 |
| Net income (loss) attributable to owners of the parent | | | | | | | (106,585) |
| Acquisition of treasury shares | | | | | | | (0) |
| Net changes of items other than shareholders' equity | (1) | (1,880) | 976 | (905) | 6 | 309 | (589) |
| Total changes of items during period | (1) | (1,880) | 976 | (905) | 6 | 309 | (72,176) |
| Balance at end of current period | (1) | 8,916 | (6,754) | 2,160 | 53 | 1,972 | 862 |

For the fiscal year ended March 31, 2020

(Millions of Yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 114,362 | 231,148 | (348,833) | (0) | (3,322) |
| Changes of items during period | | | | | |
| Issuance of common stock | 76,200 | 76,200 | | | 152,400 |
| Net income (loss) attributable to owners of the parent | | | (101,417) | | (101,417) |
| Acquisition of treasury shares | | | | | — |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | 76,200 | 76,200 | (101,417) | — | 50,982 |
| Balance at end of current period | 190,562 | 307,348 | (450,251) | (0) | 47,659 |

| | Accumulated other comprehensive income | | | | Share acquisition rights | Non-controlling interests | Total net assets |
|--|---|---|---|--|--------------------------|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | | |
| Balance at beginning of current period | (1) | 8,916 | (6,754) | 2,160 | 53 | 1,972 | 862 |
| Changes of items during period | | | | | | | |
| Issuance of common stock | | | | | | | 152,400 |
| Net income (loss) attributable to owners of the parent | | | | | | | (101,417) |
| Acquisition of treasury shares | | | | | | | — |
| Net changes of items other than shareholders' equity | 1 | (2,559) | 3,841 | 1,283 | (12) | 246 | 1,518 |
| Total changes of items during period | 1 | (2,559) | 3,841 | 1,283 | (12) | 246 | 52,500 |
| Balance at end of current period | (0) | 6,357 | (2,913) | 3,444 | 40 | 2,219 | 53,363 |

(4) Consolidated Statement of Cash Flows

| | (Millions of Yen) | |
|--|-----------------------------------|-----------------------------------|
| | April 1, 2018 - March 31, 2019 | April 1, 2019 - March 31, 2020 |
| Cash flows from operating activities | | |
| Income (loss) before income taxes | (103,839) | (98,446) |
| Depreciation | 41,756 | 19,208 |
| Amortization of goodwill | 1,990 | 1,452 |
| Impairment loss | 76,128 | — |
| Increase (decrease) in allowance for doubtful accounts | (3,093) | 387 |
| Increase (decrease) in retirement benefit liability | (3,027) | (453) |
| Interest expenses | 2,789 | 4,196 |
| Foreign exchange losses (gains) | (2,749) | (116) |
| Subsidies received | (832) | (113) |
| Share of loss (profit) of entities accounted for using equity method | 8,862 | 10,007 |
| Gain on sale of investment securities | — | (30,594) |
| Gain on change in equity | (12,656) | — |
| Loss on reduction of non-current assets | 432 | — |
| Business restructuring expenses | — | 67,178 |
| Other extraordinary loss (income) | — | 4,103 |
| Decrease (increase) in trade receivable | (6,544) | 19,980 |
| Decrease (increase) in accounts receivable - other | (10,152) | 1,521 |
| Decrease (increase) in inventories | (16,436) | 30,945 |
| Decrease (increase) in consumption taxes refund receivable | (3,081) | 2,724 |
| Increase (decrease) in trade payable | 64,285 | (88,592) |
| Increase (decrease) in accounts payable - other | (28) | (2,569) |
| Increase (decrease) in accrued expenses | (10,521) | (8,193) |
| Increase (decrease) in advances received | (26,344) | (12,815) |
| Other | 1,342 | 6,602 |
| Subtotal | (1,722) | (73,586) |
| Interest and Dividends received | 147 | 91 |
| Interest paid | (2,783) | (4,207) |
| Income taxes paid | (2,414) | (2,086) |
| Income taxes refunded | 169 | 85 |
| Extra retirement payments | — | (7,408) |
| Cash flows from operating activities | (6,604) | (87,111) |

| | (Millions of Yen) | |
|---|-----------------------------------|-----------------------------------|
| | April 1, 2018 - March 31, 2019 | April 1, 2019 - March 31, 2020 |
| Cash flows from investing activities | | |
| Purchase of non-current assets | (43,793) | (16,075) |
| Proceeds from sales of non-current assets | 19,134 | 101 |
| Purchase of investment securities | (8,413) | (1,624) |
| Proceeds from sales of investment securities | — | 46,320 |
| Payments for sales of shares of subsidiaries resulting in change in scope of consolidation | (4,931) | — |
| Subsidies received | 1,232 | 113 |
| Other | 156 | (765) |
| Cash flows from investing activities | <u>(36,614)</u> | <u>28,069</u> |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | 31,776 | (88,758) |
| Increase of long-term borrowings | — | 50,000 |
| Decrease of long-term borrowings | — | (26,320) |
| Redemption of bonds | (20,000) | (25,000) |
| Proceeds from issuance of shares | 34,999 | 151,469 |
| Repayments of installment payables | (1,038) | (1,838) |
| Repayments of lease obligations | (13,980) | (208) |
| Payments for borrowing fee | (788) | (1,661) |
| Cash flows from financing activities | <u>30,968</u> | <u>57,682</u> |
| Effect of exchange rate change on cash and cash equivalents | 373 | (1,248) |
| Net increase (decrease) in cash and cash equivalents | <u>(11,877)</u> | <u>(2,608)</u> |
| Cash and cash equivalents at beginning of period | <u>80,866</u> | <u>68,988</u> |
| Cash and cash equivalents at end of period | <u>68,988</u> | <u>66,380</u> |

(5) Notes pertaining to the Consolidated Financial Statements

(a) Note related to going concern assumptions

JDI Group has recorded an operating loss and significant impairment losses for three consecutive fiscal years, along with a net loss attributable to owners of the parent for six consecutive fiscal years, in the consolidated fiscal year ended March 31, 2020 ("FY 2019"). Also, the Group had excessive liabilities at the end of the first three quarters in FY 2019. Thereby raising significant doubts about assumptions concerning JDI's ability to continue as a going concern.

To resolve this situation, JDI Group implemented a structural reform including reviewing its business portfolio and downsizing personnel. In addition, in 2018 JDI started to find a sponsor who can provide JDI with support including a large scale equity capital injection, in order to fundamentally improve its cash flow and to ensure a proper level of net asset amount as a listed company. JDI had multiple contacts and held multiple discussions with several financial investor candidates, JDI's customer and business partners, working together with INCJ, Ltd ("INCJ"). Consequently, JDI obtained cooperation from the customer and two or more business partners of JDI by relaxing transaction terms, which contributed to the improvement of JDI's cash flow. Additionally, on December 12, 2019, JDI entered into a basic agreement regarding fund procurement with Ichigo Trust, Pte. Ltd.

Subsequently, JDI (i) resolved, at its board of directors meeting held on January 31, 2020 (the "Board of Directors Meeting"), to implement the fund procurement by issuing Japan Display Inc. class B preferred shares (the "Class B Preferred Shares") to Ichigo Trust through third-party allotment (the total procurement amount of which is JPY 50.4 billion), Japan Display Inc. 11th stock acquisition rights (the "11th Stock Acquisition Rights"), the underlying shares of which are Japan Display Inc. class C preferred shares (the "Class C Preferred Shares") to Ichigo Trust through third-party allotment (together with the issuance of the Class B Preferred Shares, the "Ichigo Trust Third-party Allotment"); and (ii) entered into a capital alliance agreement with Ichigo Trust on January 31, 2020. Also, pursuant to the resolution made by the Board of Directors Meeting, JDI newly entered into a Preferred Shares Subscription Agreement with INCJ regarding the issuance of class A preferred shares (the "Class A Preferred Shares") to INCJ through third-party allotment (the total procurement amount is JPY 102 billion, the "Third-party Allotment of Class A Preferred Shares") which is subject to the condition that the Ichigo Trust Third-party Allotment is implemented, and entered into (i) an Amended and Restated Senior Facility Agreement regarding the borrowing of funds from INCJ (the total amount of which is JPY 50 billion) (the "Senior Loan"); and (ii) a Memorandum of Amendment regarding the transfer of all of the shares of JOLED, Inc. held by JDI to INCJ as a substitute performance (the "Substitute Performance," and together with the Senior Loan and the Third-party Allotment of Class A Preferred Shares", the "Refinance") in order to partially amend the announcements made on August 27, 2019.

The extraordinary general meeting of shareholders held on March 25, 2020 resolved the implementation of the Ichigo Trust Third-party Allotment and the Third-party Allotment of Class A Preferred Shares, and each payment for the investments was completed on March 26, 2020. Also, the Refinance was implemented on March 26, 2020, and as the performance of the Amended and Restated Senior Facility Agreement was completed, the borrowing amount of JDI decreased by approximately JPY 148.3 billion. Furthermore, JDI recorded a gain on sales of shares along with the Substitute Performance of approximately JPY 30.6 billion. Consequently, at the end of FY 2019, excessive liabilities has been eliminated.

Based on the basic agreement entered into on March 13, 2020, JDI continues to proceed with discussions with Ichigo Trust to enter into the definitive agreement to complete issuing Japan Display Inc. class D preferred shares (the "Class D Preferred Shares") to Ichigo Trust through third-party allotment (the total procurement amount will be approximately JPY 5 billion), and Japan Display Inc. 12th series stock acquisition rights the underlying shares of which are Japan Display Inc. class E preferred shares (the total procurement amount through the exercise of the class E preferred shares will be up to JPY 55.4

billion and all of the 11th Stock Acquisition Rights which aims to procure funds of up to JPY 50.4 billion will be waived).

JDI has received a notice from INCJ stating that if JDI requests, INCJ is ready to extend (i) the repayment due date of the short-term loan dated August 7, 2019 (the total principal amount of which is JPY 20 billion) for one year, and (ii) the repayment due date of the short-term loan dated September 2, 2019 (the total principal amount of which is JPY 20 billion) for up to two years. Through the above-mentioned measures, JDI will ensure the long-term stability of funds, enhance its equity ratio, and continue to improve its financial structure.

Furthermore, JDI will implement an improvement plan to ensure a return to profitability by selling production equipment located in the Hakusan Plant which was announced on March 31, 2020 to further lower fixed costs, making capital investments targeted at growing markets, and improving product portfolio through promotion of commercialization of high value-added products using LTPS and Advanced-LTPS technology as common technical basis. On the other hand, sales decline as a result of reduced consumer spending and supply chain disruption that may be repeated due to the effects of the novel Covid-19 may delay the stable improvement in business performance that JDI expects and may affect its mid- to long-term cash flow. Considering this, there are significant uncertainties related to the going concern assumptions at this stage.

The consolidated financial statements have been prepared assuming a going concern, and do not reflect the impact of significant uncertainties related to such going concern assumptions.

(b) Application of IFRS No. 16 "Leases"

Subsidiaries of the JDI Group that apply international accounting standards have applied the International Financial Reporting Standard No. 16 "Leases" ("IFRS No. 16") from the first quarter of the current fiscal year.

As a result, the lessee of a lease generally recognizes all leases as assets and liabilities in the balance sheet. In applying IFRS No. 16, the cumulative effect of a change in accounting policy was recognized by JDI in retained earnings in the first quarter of the current fiscal year in accordance with specific transitional provisions.

As a result, lease assets in property, plant and equipment at the end of FY 2019 increased by JPY 1,688 million, lease obligations in current liabilities increased by JPY 455 million and lease obligations in non-current liabilities increased by JPY 1,810 million. The impact of this change on profits and losses in FY 2019 is immaterial.

(c) Additional information

In assessing the impairment loss on fixed assets, JDI is making a determination about the impact of the illness caused by the Covid-19 pandemic on corporate activities and how that becomes reflected in future cash flow. That determination is based on the assumption that the impact of the pandemic will fade in the first half of fiscal year 2020

and that a recovery will take hold from the second half of the fiscal year, followed by the expectation that fiscal year 2021 will represent a typical demand year.

If the above assumption proves invalid due to the uncertainty of the timing of the fading of the Covid-19 pandemic, the impairment loss on fixed assets may increase in the future.

(d) Notes to the consolidated statement of income

(i) Gain on change in equity.

FY2018 (April 1, 2018 to March 31, 2019)

Resulted from a capital increase at JDI's equity-method affiliate JOLED Inc. through third-party allotment of new shares.

FY 2019 (April 1, 2019 to March 31, 2020)

Not applicable.

(ii) Gain on sale of investment securities

FY2018 (April 1, 2018 to March 31, 2019)

Not applicable.

FY 2019 (April 1, 2019 to March 31, 2020)

JDI transferred all of its shares held in JOLED as a substitute performance and recorded a gain on sales of investment securities.

(iii) Business structure improvement expenses

FY2018 (April 1, 2018 to March 31, 2019)

Not applicable.

FY 2019 (April 1, 2019 to March 31, 2020)

JDI is implementing fundamental structural reforms to improve its earnings. The expenses for the structural reforms have been booked as business restructuring expenses.

Details are as follows:

| | | |
|---|--------|-----------------|
| Impairment loss on non-current assets (Note 1) | 54,176 | millions of yen |
| Cost related to early retirement program (Note 2) | 7,793 | |
| Penalty for contract change | 3,148 | |
| Ancillary expenses related to the expected transfer of Hakusan Plant | 827 | |
| Return of subsidy | 800 | |
| Other | 431 | |
| Total | 67,178 | |

Note 1: The details of the impairment loss on non-current assets are as follows:

| Purpose | Type | Location | Impairment loss (millions of yen) |
|-----------------|---|--|--------------------------------------|
| Business assets | Buildings and structures, Machinery, equipment and vehicles, Land, Construction in progress, Other tangible assets, and Other intangible assets | Mobara Plant Mobara-shi, Chiba | 2,291 |
| | Buildings and structures, Machinery, equipment and vehicles, Land, Construction in progress, Other tangible assets, and Other intangible assets | Ishikawa Plant Kawakita-machi, Nomi-gun, Ishikawa | 1,081 |
| | Buildings and structures, Machinery, equipment and vehicles, Construction in progress, Other tangible assets, and Other intangible assets | Higashiura Plant Higashiura-machi Chita-gun, Aichi | 1,698 |
| | Buildings and structures, Machinery, equipment and vehicles, Land, Construction in progress, Other tangible assets, and Other intangible assets | Hakusan Plant Hakusan-shi, Ishikawa | 46,096 |
| | Machinery, equipment and vehicles, Construction in progress, Other tangible assets | Philippines | 672 |
| Idle assets | Buildings and structures, and Other tangible assets | Headquarters, Minato-ku, Tokyo | 13 |
| | Buildings and structures, and Other intangible assets | Nishi nippon office Osaka-shi, Osaka | 0 |
| | Buildings and structures, Machinery, equipment and vehicles, Construction in progress, Other tangible assets, Other intangible assets | Mobara Plant Mobara-shi, Chiba | 1,740 |
| | Buildings and structures, Machinery, equipment and vehicles, Construction in progress, and Other intangible assets | Ishikawa Plant Kawakita-machi, Nomi-gun, Ishikawa | 486 |
| | Buildings and structures, Construction in progress, Other tangible assets | Tottori Plant Tottori-shi, Tottori | 95 |
| Total | | | 54,176 |

JDI in principle classifies business assets based on management accounting classification and groups them by adding relevance in manufacturing processes. Regarding idle assets, JDI individually groups them as units that generate cash flows independently from other asset groups.

-Business assets:

In JDI's mainstay mobile business category intensified because of sluggish growth in the smartphone market, the increased adoption of OLED displays by customers and increased production by competing manufacturers in China and JDI recognized that profitability of a portion of JDI's production facilities has decreased. As a result, the book value of the business asset group that decreased its profitability has been revised downward to the recoverable amount. This downward revision amount was JPY 51,840 million (mainly consisting of machinery, equipment and vehicles of JPY 45,738 million), and recorded as extraordinary losses.

The recoverable amount of business assets is calculated by the net realizable value, and the net realizable value is evaluated by the appraisals by third parties.

-Idle Assets:

The book value of the idle asset group has been revised downward to the recoverable amount because the assets in that group are not expected to be used in the future. This downward revision amount was JPY 2,336 million, mainly consisting of machinery, equipment and vehicles (JPY 1,699 million), and recorded as extraordinary losses.

The recoverable amount of idle assets is calculated at zero.

Note 2: Early extra retirement payments are mainly due to premium severance payment of early retirement, etc.

(iv) Other extraordinary loss

FY2018 (April 1, 2018 to March 31, 2019)

Not applicable.

FY 2019 (April 1, 2019 to March 31, 2020)

Costs related to improper accounting treatments JPY 3,845 million and a valuation loss on investment in securities JPY 258 million

(e) Notes to the Consolidated Statement of Cash Flows

Cash and cash equivalents can be specified as follows

| | (millions of yen) | |
|---|---------------------------------|---------------------------------|
| | FY 2018 | FY 2019 |
| | (April 1, 2018 -March 31, 2019) | (April 1, 2019 -March 31, 2020) |
| Cash and deposits | 68,988 | 66,672 |
| Deposit with a period of more than 3 months | — | (292) |
| Cash and cash equivalents | 68,988 | 66,380 |

(f) Segment information

FY 2018 (April 1, 2018 to March 31, 2019)

Since JDI's small-medium display business is a single segment, information on reportable segment is not stated.

FY 2019 (April 1, 2019 to March 31, 2020)

Since JDI's small-medium display business is a single segment, information on reportable segment is not stated.

(g) Per share information

| | FY 2018 (April 1, 2018 -March 31, 2019) | FY 2019 (April 1, 2019 -March 31, 2020) |
|-----------------------------------|--|--|
| Net assets per share (yen) | (1.37) | (39.91) |
| Net income (loss) per share (yen) | (128.41) | (116.05) |

Note 1. Despite the existence of dilutive shares, diluted net income per share is not presented because net loss per share was posted for the periods above.

Note 2. Net assets per share were calculated on the following basis:

| | FY 2018 (March 31, 2019) | FY 2019 (March 31, 2020) |
|---|-----------------------------|-----------------------------|
| Total net assets (millions of yen) | 862 | 53,363 |
| Amount deducted from total net assets (millions of yen) | 2,025 | 154,660 |
| (of which, paid in amount for shares prioritized over ordinary shares (millions of yen) | — | (152,400) |
| (of which, stock acquisition rights) (millions of yen) | (53) | (40) |
| (of which, non-controlling interests) (millions of yen) | (1,972) | (2,219) |
| Term-end net assets for ordinary shares (millions of yen) | (1,162) | (101,296) |
| Number of term-end ordinary shares used to calculate net assets per share (shares) | 846,165,797 | 2,538,165,797 |

Note: Class A preferred share and class B preferred share have both Priority rights and equivalent rights to common stock on distribution of residual assets and therefore are included in common stock for calculation of Net assets per share.

Note 3: Net income (loss) per share and diluted net income per share were calculated on the following basis:

| | FY 2018 (April 1, 2018 – March 31, 2019) | FY 2019 (April 1, 2019 – March 31, 2020) |
|---|--|--|
| Net income (loss) attributable to owners of the parent (millions of yen) | (106,585) | (101,417) |
| Amount not attributable to ordinary shareholders (millions of yen) | — | — |
| Net income (loss) attributable to ordinary shareholders of the parent (millions of yen) | (106,585) | (101,417) |
| Average number of shares outstanding during the period (shares) | 830,072,391 | 873,903,501 |
| Class A Preferred Shares (share) | — | (16,721,311) |
| Class B Preferred Shares (share) | — | (11,016,393) |

Note: Class A preferred share and class B preferred share have equivalent rights to common stock on dividend of surplus and therefore are included in common stock for calculation of Net income (loss) per share.

(h) Significant subsequent events

Not applicable.