JDI Japan Display Inc.

April 13, 2020

Notice Regarding Receipt of the Investigation Report from the Third-Party Committee
(Summary Version English Translation Attached)

Japan Display Inc. (“JDI”) commissioned a third-party committee (the “Committee”) to investigate the possibility of improper accounting treatment in previous fiscal year financial statements and that committee has conducted an investigation. Today JDI announces that it has received an investigation report from the Committee and has assessed the impact of the report on its business results.

Please refer to the attached "Investigation Report (Summary)" for the results of the investigation by the Committee. (The full English translation of the Investigation Report will be available in the near future. Translation has been delayed due to the impact of the novel coronavirus among other factors.) The investigation report is subject to precautionary partial non-disclosure restrictions, such as company names and personal names, in order to protect confidential and personal information.

JDI has treated this incident with the utmost seriousness. JDI will fully analyze the facts determined by the Committee, the reasons for the improper accounting identified by the Committee and the Committee’s recommendations for measures to prevent recurrence. After reaching a proper understanding of the issues, JDI will act quickly to formulate and implement measures to prevent recurrence.

JDI sincerely apologizes to its shareholders, business partners and other stakeholders for having caused a significant amount of concern and inconvenience. The company’s intention now is to focus on preventing recurrence as well as to improve its business and financial performance in order to restore the trust of all its stakeholders. JDI kindly asks for the understanding and support of all who have an interest in the company.

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(Translation)

FOR REFERENCE PURPOSES ONLY

To Japan Display Inc.

Investigation Report
(Summary)

April 13, 2020

The Third-Party Committee for Japan Display Inc.

Chairman: Shiro Kuniya
Member: Ken Arahari
Member: Norihiro Sekiguchi

THIS IS AN ENGLISH TRANSLATION OF THE JAPANESE ORIGINAL, PREPARED ONLY FOR THE CONVENIENCE OF SHAREHOLDERS RESIDING OUTSIDE JAPAN. THE ORIGINAL JAPANESE VERSION WILL PREVAIL SHOULD THERE BE ANY DIFFERENCE IN THE MEANING BETWEEN THE ENGLISH VERSION AND THE JAPANESE VERSION. AN ENGLISH TRANSLATION OF THE DETAILED REPORT WILL BE PUBLISHED AT A LATER DATE.

I. Outline of the Investigation

1. Background on the establishment of the Third-Party Committee

On November 26, 2019, Japan Display Inc. ("JDI") was notified by its former Head of Division, Accounting & Business Management Division ("Mr. A") to the effect that he had performed inappropriate accounting treatment in settling of accounts of JDI for the past fiscal years in accordance with the instructions of the management (the "Accusation").

In response thereto, on December 2, 2019, JDI resolved at the meeting of the board of directors to establish a special investigation committee (the "Special Investigation Committee"), consisting of one executive officer, one attorney and one certified public accountant, in order to implement a thorough, prompt, and highly transparent investigation of the alleged inappropriate accounting treatment (the "Suspected Misconduct") conducted in the past fiscal years as per the Accusation.

The Special Investigation Committee conducted interviews with relevant personnel in charge and preserved and examined accounting data and other relevant materials. In the course of the investigation, they found that there were specific suspicions relating to the Suspected Misconduct.

As JDI determined that it would be desirable to conduct further investigation with a more transparent framework, on December 24, 2019, JDI resolved at the meeting of its board of directors to establish a third-party committee (the "Committee"), consisting of neutral and fair external members independent of JDI, in accordance with the "Guidelines for Third-Party Committees Relating to Corporate Scandals" (published on July 15, 2010; revised on December 17, 2010) of the Japan Federation of Bar Associations.

2. Purposes for establishing the Committee

The purposes for establishing the Committee are as follows:

(i) To investigate the facts relevant to the Suspected Misconduct,

(ii) To examine the existence of events similar to the Suspected Misconduct for the period from the inception of the business of JDI (April 2012) to September 2019 (the "Investigation Period"),

(iii) To calculate the amount of the impact of any inappropriate accounting treatment that may be found,

(iv) To investigate the causes and recommend measures to prevent a recurrence of the inappropriate accounting treatment if any such treatment is found, and

(v) Any other matters deemed necessary by the Committee.

The Suspected Misconduct consists of the following:

(i) Recording of fictitious inventory worth JPY 10 billion

(ii) Avoidance of write-downs of slow-moving and excessive inventories by using sales

prospects and other data that differed from the actual conditions

(iii) Manipulation of profits by reclassifying consumables to supplies that should otherwise have been recorded as expenses

(iv) Manipulation of profits by postponing or capitalizing expenses or losses

(v) Recognition of sales subject to repurchase agreements with distributors for overseas transactions

(vi) Postponement of the recognition of expenses for product warranties sold to a major customer

(vii) Not recording and postponing allowances for losses in its overseas electronics manufacturing service ("Overseas EMS") and overseas manufacturing subsidiaries, which are attributable to JDI

(viii) Avoidance of impairment losses on fixed assets

(ix) Avoidance of the recognition of impairment losses on an investment in its affiliate and the recognition of reserve for investment losses in the affiliate

(x) Recording profits by recognizing additional deferred tax assets in an inappropriate manner

(xi) Payment of dividends from deferred tax assets

(xii) Manipulation of restructuring losses to meet the figures on the management's announcements

(xiii) Recording profits by capitalizing the acquisition costs of fixed assets items that should have been originally treated as expenses

(xiv) Avoidance of losses by reclassifying R&D expenses paid quarterly to its affiliate as capital contribution

(xv) Overstatement of operating profits by inappropriate reclassification of expenses

(xvi) Preparation of infeasible business plans upon the listing application, etc.

3. Structure of the Committee

The Committee consists of the following three members:

Chairman: Shiro Kuniya (Attorney-at-law, Oh-Ebashi LPC & Partners)

Member: Ken Arahari (Certified Public Accountant, EY Forensic & Integrity LLC)

Member: Norihiro Sekiguchi (Attorney-at-law, Oh-Ebashi LPC & Partners)

4. Assumptions

This summary report is a summary of the Investigation Report (published version) dated April 13, 2020, prepared by the Committee ("Detailed Report"). Please refer to the Detailed Report for details of the investigation conducted by the Committee. Abbreviations used in this summary report are defined in the Detailed Report unless defined in this summary report.

The investigation conducted by the Committee and its results have the following general restrictions and limitations:

- The investigation by the Committee was conducted in cooperation with the JDI Group in good faith, but the Committee does not have the power of compulsory investigation. Accordingly, there were limitations to the Committee's investigation of facts, and the fact finding exercise conducted by the Committee had to rely on the voluntary statements of JDI Group officials and staff, as well as materials submitted by the JDI Group, which is not exhaustive of all past facts.
- Since Mr. A passed away on November 30, 2019 subsequent to the Accusation, the Committee was unable to conduct an interview with Mr. A on the specific contents of the Accusation and his previous actions.
- The purpose for establishing the Committee is as described in Section 2 above, and this summary report is not intended to be used for any other purpose.
- The investigation by the Committee have been conducted for the JDI Group, entrusted by JDI, and the Committee has no responsibility for such investigation and its results to third parties other than the JDI group.

II. Summary of Investigation Results

1. Recording of fictitious inventories worth JPY 10 billion

In the 4th quarter of the fiscal year ended March 2014, JDI overbooked JPY 3 billion in work-in-progress in an attempt to avoid operating deficits in the quarter immediately after listing. This inappropriate accounting treatment was reversed in the 1st quarter of the fiscal year ended March 2015.

Subsequently, in an attempt to achieve the level of profits expected in the earnings forecast, JPY 10 billion worth of work-in-progress was recognized fictitiously from the 2nd quarter of the fiscal year ended March 2016 to the 1st quarter of the fiscal year ended March 2017. These inappropriate entries were reversed in a stepwise manner from the 1st quarter of the fiscal year ended March 2018 to the 2nd quarter of the fiscal year ended March 2019, and then resolved in the said quarterly period.

2. Avoidance of write-downs of slow-moving and excessive inventories by using sales prospects and other data that differed from the actual conditions

JDI engaged in inappropriate accounting treatment to avoid a write-down by using sales prospects and other data that differed from actual conditions of slow moving and excessive inventories for the 4th quarter of the fiscal year ended March 2014, the 1st quarter of the fiscal year ended March 2015, from the 3rd quarter of the fiscal year ended March 2015 to the 1st quarter of the fiscal year ended March 2017, and the 1st quarter of the fiscal year ended March 2018.

The effects of this inappropriate accounting treatment are as follows. These effects were resolved through the reversal entries in the following quarterly periods.

(million JPY)

Quarterly consolidated accounting period		Unrecorded loss on evaluation of inventories
For the fiscal year ended March 31, 2014	Q4	376
For the fiscal year ended March 31, 2015	Q1	438
	Q3	2,105
	Q4	2,523
For the fiscal year ended March 31, 2016	Q1	1,686
	Q2	2,107
	Q3	4,289
	Q4	2,892
For the fiscal year ended March 31, 2017	Q1	1,172
For the fiscal year ended March 31, 2018	Q1	813

3. Manipulation of profits by reclassifying consumables to supplies that should

otherwise have been recorded as expenses

From the 4th quarter of the fiscal year ended March 2014 to the 2nd quarter of the fiscal year ended March 2020, some of the plant bases that were required to reduce fixed costs had recorded part of their consumables as supplies, which should otherwise have been treated as expenses, in order to reduce fixed manufacturing costs and achieve target profit. The effects of this inappropriate accounting treatment are as follows. These effects were resolved through the reversal entries in the following quarterly periods.

(million JPY)

Quarterly consolidated accounting period		Overstatement of supplies
For the fiscal year ended March 31, 2014	Q4	12
For the fiscal year ended March 31, 2015	Q1	1
For the fiscal year ended March 31, 2016	Q4	13
For the fiscal year ended March 31, 2017	Q1	38
	Q2	114
	Q3	5
For the fiscal year ended March 31, 2018	Q1	17
	Q2	6
For the fiscal year ended March 31, 2019	Q2	112
	Q3	100
	Q4	134
For the fiscal year ended March 31, 2020	Q1	150
	Q2	61

4. Manipulation of profits by postponing or capitalizing expenses or losses

(1) Postponement of expenses and losses

Both of the following were found as intentional postponement of the recognition of expenses: (i) the expenses that were once processed in the 4th quarter of the fiscal year ended March 2014 were withdrawn and recorded as expenses in the 1st quarter of the fiscal year ended March 2015; and (ii) a portion of the miscellaneous losses were not recorded in the 4th quarter of the fiscal year ended March 2015, but were recorded in the 2nd quarter of the fiscal year ended March 2016. The total amount resulting from the postponement described in (i) and (ii) above is JPY 1,718 million.

(2) Manipulation of profits by capitalizing expenses

Both of the following were found as intentional capitalization of expenses: (i) expenses related to the modification of jigs were recorded as fixed assets in the 3rd quarter of the fiscal year ended December 2014, and (ii) purchase costs of photo masks for R&D purpose that should otherwise have been treated as expenses were recorded as fixed assets in the 3rd quarter ended March 2016. The total

capitalization amount that should have been recorded as expenses resulting from (i) above, and other similar cases (including errors), and (ii) above is JPY 854 million.

5. Recognition of sales subject to repurchase agreements with distributors for overseas transaction

From the 4th quarter of the fiscal year ended March 2017 to the 1st quarter of the fiscal year ended March 2018, JDI recorded sales in the amount of JPY 1,541 million to distributors for overseas transaction. However, these recorded sales failed to meet the requirements for them to be recognized as revenue because these sales were subject to such terms and conditions under repurchase agreements and as otherwise agreed between the parties. Therefore, such revenue recognition at the time of the sale was inappropriate.

Moreover, recorded sales in the amount of JPY 109 million to a distributor for overseas transaction during the 4th quarter of the fiscal year ended March 2016 also failed to meet the requirements for them to be recognized as revenue. Therefore, such revenue recognition at the time of the sale was inappropriate as well.

6. Postponement of the recognition of expenses for product warranties sold to a major customer

For the 4th quarter of the fiscal year ended March 2017 and the 3rd quarter of the fiscal year ended March 2018, with respect to product defect compensation expenses in favor of a major customer (the "Product Defect Compensation Expenses"), which were once recorded as expenses (JPY 1 billion for the 4th quarter of the fiscal year ended March 2017 and JPY 672 million for the 3rd quarter of the fiscal year ended March 2018, respectively) pursuant to the agreement with the customer, JDI postponed the recognition of the Product Defect Compensation Expenses to the following respective quarters by cancelling the journal expenses.

7. Not recording and postponing allowances for losses in its Overseas EMS and overseas manufacturing subsidiaries, which are attributable to JDI

JDI did not record an allowance of JPY 2,534 million in total with respect to losses attributable to JDI in relation to its Overseas EMS and overseas manufacturing subsidiaries for the 4th quarter of the fiscal year ended March 2014, the 3rd quarter of the fiscal year ended March 2016, and the 3rd quarter of the fiscal year ended March 2017.

With respect to losses attributable to JDI in relation to its Overseas EMS that should have been recorded as expenses in the 4th quarter of the fiscal year ended March 2016, JDI postponed this loss (JPY 584 million) by recording it as a suspense payment in the 4th quarter of the fiscal year ended March 2016 and then, recording it as expenses in the 2nd quarter of the fiscal year ended March 2017.

8. Avoidance of impairment losses on fixed assets

(1) Avoidance of impairment losses on idle assets at the Mobara Plant in the 3rd quarter of the fiscal year ended March 2017

In the 3rd quarter of the fiscal year ended March 2017, JDI should have recorded impairment losses for idle assets at the Mobara plant that were not expected to resume operations, but avoided recording impairment losses by giving an explanation to the external auditor, KPMG AZSA LLC (the "External Auditor") as if there were a plan to resume the operation thereof. This resulted in an avoidance of impairment losses of JPY 2,315 million.

(2) Attempt to avoid impairment losses at the Hakusan Plant in the 4th quarter of the fiscal year ended March 2018

In the 4th quarter of the fiscal year ended March 2018, JDI attempted to avoid impairment losses at the Hakusan Plant by manipulating the figures in the assessment materials used to process impairment accounting and gave an explanation that differed from actual conditions to the External Auditor. However, based on the profit forecast and other factors, no obvious indication of impairment was identified even if there had been no manipulation of the said materials. As a result, no inappropriate accounting treatment was found.

9. Avoidance of the recognition of impairment losses on an investment in its affiliate and the recognition of reserve for investment losses in the affiliate (Not Found)

The Committee found Taiwan Display Inc. as an affiliate company whose value had significantly declined, and conducted an investigation by reviewing e-mails, interviewing relevant persons, and inspecting relevant materials that seemed to be related to the investment value in the above affiliate company. As a result of such investigation, and to the extent of such investigation, no evidence was found that constitutes a fact that the recognition of the impairment losses on the investment and recognition of reserve for investment losses in its affiliate company were being avoided.

10. Recording profits by recognizing additional deferred tax assets in an inappropriate manner (Not Found)

The Committee conducted an investigation by reviewing relevant materials and interviewing the persons in charge with respect to the results of the assessment of the recoverability of deferred tax assets. As a result, to the extent of such investigation, no evidence was found that constitutes a fact that deferred tax assets were recorded in an inappropriate manner.

11. Payment of dividends from deferred tax assets (Not Found)

In the first place, JDI never paid any dividends during the Investigation Period. Therefore, there is no need to assess whether dividends were paid in an inappropriate manner. In the course of the investigation, it was found that during the fiscal year ended March 2016, a study for payment of dividends in relation to the recognition of deferred tax assets was conducted; however, it is not certain that measures for the payment of dividends, including the recording of deferred tax assets, were unreasonably taken.

12. Manipulation of restructuring losses to meet the figures on the management's announcements

In August 2017, JDI announced that a business restructuring was going to be implemented, with estimated spending of a total of JPY 170 billion. Internal documents have revealed that impairment losses for the Hakusan Plant was initially planned to be recorded as a part of such restructuring losses. However, at the time of the settlement of accounts for the 4th quarter of the fiscal year ended March 2018, it was anticipated that the losses associated with the restructuring would be larger than expected. Therefore, aiming to manipulate the figures to fall within the values announced by management, there was an attempt to avoid recording the impairment losses of the Hakusan Plant and a manipulation as described in Section 8 (2) above. Nevertheless, as to the impairment losses of the Hakusan Plant in the 4th quarter of the fiscal year ended March 2018, based on the profit forecast and other factors, no obvious indication of impairment was identified even if there had been no such manipulation. Therefore, in conclusion, the manipulating the figures of the losses from the restructuring did not result in an inappropriate accounting treatment.

13. Recording profits by capitalizing in the acquisition costs of fixed assets items that should have been originally treated as expenses

(1) Capitalization of costs for the start-up of the J1 6th generation line at the Mobara Plant

In the 3rd and the 4th quarters of the fiscal year ended March 2013, the previous fiscal year of the listing, JDI included a total of JPY 1,039 million of registration and license taxes and real estate acquisition taxes into acquisition costs for fixed assets, arising out of the start-up costs for the J1 6th generation line at the Mobara Plant. This accounting treatment was contrary to JDI's regulations for the management of fixed assets and was made without having been aware of the relevant provisions under such regulations. In this regard, the Committee concluded that the above accounting treatment was as an error because no evidence was found that an unusual accounting treatment was carried out intentionally with the awareness of the provisions of the regulations at that time.

In addition, as to the D3 line at the Hakusan Plant, in the 1st quarter of the fiscal year ended March 2016 and the 3rd quarter of the fiscal year ended March 2018, a total of JPY 178 million of registration

and license taxes and real estate acquisition taxes was inappropriately included in the acquisition costs of fixed assets. In this regard, the Committee recognized the above accounting treatment as an error, because it could not be shown that the above treatment was carried out intentionally.

(2) Capitalization of IT outsourcing expenses

From the 4th quarter of the fiscal year ended March 2016 to the 4th quarter of the fiscal year ended March 2018, for the purpose of reducing fixed expenses, JDI inappropriately included a total of JPY 279 million as intangible fixed assets (software) in its acquisition costs of fixed assets, from expenses that should have been treated as outsourcing expenses under the project to enhance business management functions that had been implemented at that time.

In addition, in the 3rd quarter of the fiscal year ended March 2018 and the 1st quarter of the fiscal year ended March 2019, JDI inappropriately included a total of JPY 13 million as intangible fixed assets (software) in its acquisition costs of fixed assets, from expenses that should have been treated as outsourcing expenses in relation to matters other than the project to enhance business management functions. In this regard, the Committee recognized the above accounting treatment as an error because it could not be shown that the above treatment was carried out intentionally.

(3) Capitalization of start-up costs for the OLED pilot line at the Ishikawa Plant

Around May 2016, an RGB-side-by-side evaporation system was added to the organic EL (Organic Light Emitting Diode; "OLED" in this document) pilot line. However, from the 3rd quarter of the fiscal year ended March 2017 to the 1st quarter of the fiscal year ended March 2018, a total of JPY 877 million, which should have been treated as R&D expenses, was improperly capitalized for the purpose of reducing fixed costs.

(4) Capitalization of start-up costs for the J1 OLED line at the Mobara Plant

From the 3rd quarter of the fiscal year ended March 2018 to the 2nd quarter of the fiscal year ended March 2020, the entire expenses of the OLED Business Development Division, including expenses not related to the start-up of the J1 OLED line at the Mobara Plant, was capitalized for the purpose of reducing fixed costs. As a result, JPY 2,224 million was inappropriately included in the acquisition costs of fixed assets.

(5) Capitalization of the start-up costs for the D3 line at the Hakusan Plant

In the 3rd quarter of the fiscal year ended March 2017, for the purpose of reducing fixed costs, JDI capitalized the expenses of the Production Department of the Hakusan Plant, including depreciation expenses of JPY 932 million for buildings, machinery equipment and the like at the Plant for 22 days (December 1 to 22) prior to the start of mass production of the D3 line at the Hakusan Plant on

December 23, 2016, as fictitious machinery and equipment.

14. Avoidance of losses by reclassifying R&D expenses paid quarterly to affiliate companies as capital contribution

JDI was paying service fees to its affiliate company, JOLED Inc., under an R&D service agreement executed with the company. However, as a result of growing doubts about the rationality of the agreement, and considering other circumstances, such as the cost-cutting measures by management, JDI changed the service agreement into an investment agreement. In the process of the negotiations for the change of the agreement, JDI avoided to recording the R&D expenses based on the planned change of the agreement, although a high likelihood of a change in the agreement was not objectively recognized. In the 3rd quarter of the fiscal year ended March 2016, the recording of expenses of JPY 1,625 million were avoided. As this amount was recorded in the following quarter, there was no difference in the amount of recognized expenses for the full year.

15. Overstatement of operating profits by inappropriate reclassification of expenses

In November 2013, with respect to the J1 line at the Mobara Plant, a false report was submitted to the management committee, including a proposal for the reclassification of operating expenses to non-operating expenses, and was approved. The report stated that the operation of some of the equipment was suspended, in order to make the operating profit look better, even though most of the equipment was in operation from the middle to the end of November. As a result, depreciation expense for one month of JPY 512 million was reclassified as non-operating expenses for the suspended equipment, and operating profit was overstated.

In addition, in a similar manner, with respect to the J1 and V3 lines at the Mobara Plant, a depreciation of JPY 1,295 million was reclassified as non-operating expenses because an incorrect report was made on the non-operating assets that was different from actual circumstances, from the 4th quarter of the fiscal year ended March 2016 to the 1st quarter of the fiscal year ended March 2020. In this regard, the Committee recognized the above accounting treatment as an error because no evidence was found showing that an incorrect report on the non-operating assets was intentionally made.

16. Preparation of infeasible business plans upon the listing application (Not Found)

JDI listed its issued shares on the First Section of the Tokyo Stock Exchange on March 19, 2014. JDI's business plan submitted upon the application for listing to the Tokyo Stock Exchange and to the managing securities company could not necessarily be said to be free from concerns regarding its feasibility, but this did not directly affect the final issuance pricing.

17. The persons involved in the inappropriate accounting treatment

Most of the inappropriate accounting treatment identified by the Committee was led by Mr. A. However, it was also found that a part of the inappropriate accounting treatment was done upon the instructions and approval of the then executive officers, including the CFO, or led by the overseas subsidiaries.

In this regard, no involvement by the current management was found.

III. Analysis of the Causes of the Occurrence of the Inappropriate Accounting Treatment

1. Direct causes of the Inappropriate Accounting Treatment

Most of the inappropriate accounting treatment identified by the Committee (the "Inappropriate Accounting Treatment") were due to inappropriate manipulation led by Mr. A, who internally reported the same. The opportunities for him to conduct such manipulation, factors to justify such conduct, and his motives are as follows:

(1) Existence of the opportunity

a. As the head of the accounting division, Mr. A had been controlling the accounting practices in the company for a long period of time. As such, the powers within the division were concentrated in him and he was able to manipulate the bookkeeping and institutional accounting of the company without any specific instructions from his superiors.

b. The CEO and CFO of JDI, the superiors of Mr. A, were invited or employed from outside the company and, like Mr. A, had no background in any of the three former companies of JDI. They were not knowledgeable about practical bookkeeping and institutional accounting. Therefore, control over Mr. A by his superiors did not function properly.

c. Due to the fact that no internal audit was generally conducted for the accounting division of the headquarters during the period Mr. A was in office, the governance of JDI was weak and the activities of Mr. A were insufficiently monitored and supervised. In addition, there was no mutual check-and-balance system within the accounting division.

(2) Existence of factors to justify the Inappropriate Accounting Treatment

a. It was not possible to interview to Mr. A directly about his subjective circumstances because he has passed away. However, it is supposed that, in combination with his declining awareness of the need for compliance and various pressures, he was motivated and consequently justified the inappropriate manipulation through a distorted sense of justice to protect the company and the CFO by using his power to window-dress the figures of the company.

b. It can be deemed that Mr. A's awareness of the need for compliance had decreased and he had justified the inappropriate manipulation through the following series of activities, such as (i) the desire held by all members of the company, including himself, to somehow raise the operating profits of the company, (ii) the instructions and approvals of the Inappropriate Accounting Treatment by the then-CFO, who was also the superior of Mr. A in their former jobs and had close personal relationship with him, and (iii) Mr. A implementing the inflation of the operational profits based on such instructions and approvals.

(3) Existence of motives

a. As the largest shareholder of JDI, INCJ held substantial decision-making power over it for a certain period after the inception of JDI. In developing the business plan of JDI, INCJ raised the target figures to such amounts that were not necessarily feasible (among others, with respect to operating profit) and demanded that the management and executives of JDI achieve the same. Accordingly, it is assumed that the management and executives of JDI had a motive to improve the performance of the company and achieve the target figures requested by INCJ by some means or others.

b. The new CEO, who assumed office in June 2015, strictly demanded the relevant divisions of the company to achieve the target operating profits announced quarterly as earnings forecasts. This pressure from the CEO could also be considered as a motive for Mr. A to have conducted the Inappropriate Accounting Treatment.

2. Indirect causes of the Inappropriate Accounting Treatment

(1) Long-standing slump

The fundamental reason for the Inappropriate Accounting Treatment is that JDI had not recorded current net income in any full-year since the fiscal year ended March 2015.

(2) "Supremacy of Operating Profit Principle"

Most of the Inappropriate Accounting Treatment conducted in JDI involved the inappropriate manipulation of accounts to inflate operating profit. The reason behind this is the operating principle of JDI that may be called as the "supremacy of operating profit principle." Particularly, after the company recorded an operating loss, there was pressure that if the operating loss/profit did not improve even a little, it may interfere with the company's relationship with its investors, and affect its fund raising.

(3) Insufficient internal controls system

Another indirect factor contributing to the Inappropriate Accounting Treatment was the insufficiency of the internal controls system at JDI; for example, (i) the monitoring and supervision conducted by the board of directors were insufficient, (ii) the internal controls by corporate auditors did not function properly, (iii) the internal audit did not generally cover the accounting division of the headquarters, (iv) the internal reporting system was insufficient to prevent the Inappropriate Accounting Treatment, and (v) the handling of reports from employees was insufficient.

(4) Issues in the internal accounting treatment and its operation

At JDI, the following are examples of the issues found in the internal accounting treatment and operation thereof that could have led to inappropriate accounting: (i) the awareness and attitude of the entire company toward appropriate accounting were weak, (ii) the internal rules concerning accounting treatment were unclear, and such rules were operated inappropriately, and (iii) the lack of control activities to prevent falsification of information.

IV. Proposed Preventive Measures against the Recurrence of the Inappropriate Accounting Treatment

1. Measures to prevent the recurrence of the Inappropriate Accounting Treatment related to the direct causes

(1) Strengthening both the quality and quantity of the accounting division

One of the factors that made it easier for Mr. A to take the initiative in carrying out inappropriate accounting was the fact that the power in the accounting division of the headquarters was concentrated in him and, accordingly, the accounting procedures were personalized to him. Moving forward, in order to prevent a recurrence of such situation, it is essential to strengthen both the quality and quantity of the personnel in the accounting division at JDI.

(2) Proper personnel rotation

The reason for the longstanding inappropriate accounting led by Mr. A lies in the "opportunities" fostered by his longtime service as the head of the accounting division of JDI and the concentration of power in him resulting therefrom. To prevent such stagnant allocation of personnel, proper personnel rotation should be considered.

(3) Strengthening the monitoring and supervision of the accounting division under an internal control system

Strengthening the monitoring and supervision of the accounting division under an internal control system should be considered, such as by reviewing the composition of the outside directors; strengthening the monitoring and supervision by the board of directors, including the election of a CFO and appointment of directors; reviewing the target and method of the audits by internal audit department and corporate auditors; and reviewing the internal reporting system.

(4) Ensuring autonomy as a listed company

It is necessary to secure the management autonomy of JDI and to return to the fundamentals of corporate governance as a listed company to enhance and maximize the corporate value and interests of its all shareholders, rather than focus on the interests or intention of a specific major shareholder.

(5) Reforming the mindset of the management

In order to prevent a recurrence of the pressure put forth by the management, it is important to create a corporate culture where current and future management can freely exchange their opinions while paying attention to their respective language and behavior on a daily basis. Further,

it is important for the board of directors and the corporate auditors to remind the representative directors. To bring back external confidence and internal motivation, the management must sincerely feel responsible for the Inappropriate Accounting Treatment, promise to prevent it from recurring, and continue issuing the message from top management that the company will never conduct or allow any inappropriate accounting.

2. Measures to prevent the recurrence of the Inappropriate Accounting Treatment related to indirect causes

(1) Improving corporate culture and reforming the awareness on the need for compliance

Going forward, it is necessary to structure a compliance system based on the view that humans operate on self-interest under which misconduct is expected to occur. As a for-profit entity, the improvement of business performance and increase of operating profits are naturally essential; however, in order to prevent a recurrence of inappropriate accounting, it is necessary to thoroughly recognize that manipulation sales and profits can never be allowed.

(2) Review of accounting standards and improvement of operations

a. It is necessary for management to change its mindset on accounting treatments from “accounting treatment which will enable as much profits to be recorded as possible” to “accounting treatment which reflect the actual conditions of the company”. It is also important to carefully select and apply accounting treatments based on sincere consultation with the external auditor and to improve the situation through business measures without looking away from the result.

b. Certain accounting standards permit several options regarding accounting treatment and a certain range of interpretations exists. Therefore, the company must clearly define its accounting policies, stipulate them as internal rules to the extent practically possible, keep every personnel informed thereof, and consistently apply the set accounting policies. Further, it is desirable to specify the underlying concept for the accounting policies to avoid an incorrect interpretation in the process of its operation.

c. In light of the occurrence of the Inappropriate Accounting Treatment through falsification of information, and in order to avoid the risk of such treatment in the future, the Committee considers it necessary to develop and operate management and control through measures such as downloading information properly from sales forecast data and then verifying that the inventory valuation calculation data are prepared based on the said information.

End