April 13, 2020

[This is an English translation of an original Japanese-language document.]

Japan Display Inc.

Consolidated Financial Results for the Nine Months of Fiscal Year 2019 (Japanese GAAP)

Company name:	Japan Display Inc. (“JDI”)
Security code:	6740
Listing:	Tokyo Stock Exchange (First Section)
Website:	https://www.j-display.com/english/
Representative:	Minoru Kikuoka, President and CEO
Contact:	Akihito Okochi, Executive Officer, Head of Corporate Planning and Strategy Division, Head of Finance Division
Phone:	+81-3-6732-8100

Filing of 3Q-FY2019 quarterly securities report:	April 13, 2020
Commencement of dividend payments:	-
Supplementary materials for the 3Q-FY2019 earnings results:	Available
Briefing for 3Q-FY2019 results:	April 13, 2020

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

1. Consolidated results of operations for the nine months ended December 31, 2019

(1) Results of operations

(Millions of yen, except per share amounts)

	9 mo. ended Dec. 31, 2020	YoY (%)	9 mo. ended Dec. 31, 2019	YoY (%)
Net sales	387,775	(16.7)	465,331	(17.9)
Operating income (loss)	(32,624)	-	(7,423)	-
Ordinary income (loss)	(46,633)	-	(16,796)	-
Net income (loss) attributable to owners of the parent	(110,885)	-	(9,814)	-
Net income (loss) per share				
-Basic	(131.04)		(11.90)	
-Diluted	-		-	
(Reference) Comprehensive income (loss)	(109,175)	-	(10,855)	-

(2) Financial position

(Millions of yen, except per share amounts)

	Dec. 31, 2019	Mar. 31, 2019
Total assets	427,851	538,502
Net assets	(108,291)	862
Shareholders’ equity ratio (%)	(25.9)	(0.2)
(Reference) Shareholders’ equity	(110,613)	(1,162)

2. Dividends

	Jun. 30	Sep. 30	Dec. 31	FY-end	Total
Year ended Mar. 31, 2018	-	0.00	-	0.00	0.00
Year ending Mar. 31, 2019	-	0.00			
Year ending Mar. 31, 2019 (forecast)			-	0.00	0.00

Note: Changes from the most recently announced dividend forecast: None

3. Financial forecast for FY 2019 (April 1, 2019 – March 31, 2020)

JDI estimates consolidated net sales of approximately JPY 500 billion for FY 2019, down around 20% year on year. In regards to profits, JDI's original aim was to put operating income into the black from the third quarter onward. However, the effects of the spread of the new coronavirus (COVID-19) infection made it difficult to turn a profit in the fourth quarter.

Details are shown in the attached Page 6, "1. Quarterly Results Information, (3) Note Concerning the Forecast of Consolidated Financial Results."

Notes:

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

Newly consolidated: -

Removed from consolidation: -

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes

For details please see "(c) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements" in "(4) Notes pertaining to the Consolidated Financial Statements" of "2. Consolidated Financial Statements" included among the attachments.

(3) 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

(4) Number of shares outstanding (common shares)

	Dec. 31, 2019	Mar. 31, 2019
Number of shares outstanding (incl. treasury shares) ·······	846,165,800	846,165,800
Number of treasury shares ···································	3	3
	9 mo. ended Dec. 31, 2019	**9 mo. ended Dec. 31, 2018**
Average number of shares outstanding ······················	846,165,797	824,805,459

* This financial statement is not subject to quarterly review procedures.

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 JDI at the time the document was prepared and on 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.

Attachments

1. Quarterly Results Information

(1) Overview of Results of Operations

Consolidated Results of Operations for Nine Months of FY 2019 (April 1 – December 31, 2019)

(Millions of yen)

	9 mo. ended Dec. 31, 2018	9 mo. Ended Dec. 31, 2019	YoY Change	(%)
Mobile Device Category	339,406	271,483	(67,923)	(20.0)
Automotive Category	83,460	79,616	(3,844)	(4.6)
Non-Mobile Device Category	42,464	36,676	(5,788)	(13.6)
Net sales	465,331	387,775	(77,555)	(16.7)
Gross profit	28,039	(4,754)	(32,793)	-
Operating income (loss)	(7,423)	(32,624)	(25,201)	-
Ordinary income (loss)	(16,796)	(46,633)	(29,836)	-
Net income (loss) attributable to owners of the parent	(9,814)	(110,885)	(101,071)	-
EBITDA*	25,036	(17,541)	(42,577)	-

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

During the nine months of fiscal year 2019, the market for small and medium-sized displays developed, manufactured and sold by Japan Display Inc. ("JDI") continued to experience a harsh business environment due to stagnant growth in the smartphone market, which is the company's main display application area, greater adoption among customers of OLED displays, intensified competition with emerging Chinese competitors and other factors. In response to this situation, JDI implemented structural reforms to reduce its fixed costs that included: (i) cutting the number of employees in Japan by more than 30%; (ii) suspending operations at the Hakusan Plant; (iii) closing the Mobara Plant back-end production line (V2 line); and the write-down of production facilities for smartphones (mainly business assets at the Hakusan Plant).

Under these circumstances, JDI's net sales for nine months of fiscal year 2019 decreased by 16.7% year on year (YoY) to JPY 387,775 million, due to such factors as the lack of a significant increase in demand for new smartphone displays JDI had in the third quarter of the previous fiscal year and the suspension of operations at the Hakusan Plant. In terms of profits, an inventory accumulation to support an increase in new display shipments contributed to operating income in the first half of the previous fiscal year, however-the lack of this contribution and a decline in inventory in the first half of fiscal year 2019 had a negative impact on operating income. Thus, despite the existence of the above-mentioned restructuring benefits that helped to reduce fixed costs in the third quarter, this inventory situation and the decline in net sales explain a nine-month operating loss of JPY 32,624 million, larger than the operating loss of JPY 7,423 million in the same period of the previous fiscal year.

Also, an ordinary loss of JPY 46,633 million was due in part to the recording of a share of loss of entities accounted for using the equity method of JPY 8,512 million on shares of equity-method affiliate JOLED, Inc. A net loss attributable to owners of the parent of JPY 110,885 million was recorded after taking into account an extraordinary loss of JPY 62,224 million in business restructuring expenses that included a write-down on the Hakusan Plant and early premium retirement benefits.

Below is an overview of JDI's sales performance in each of its application categories in the nine-month period.

Mobile Device Category

The Mobile Device Category includes displays for smartphones, tablets and other devices. Net sales at the end of nine months of fiscal year 2019 in this category were JPY 271,483 million (down 20.0% YoY versus the same nine-month period) and accounted for 70.0% of total company sales.

Sales declined YoY mainly due to the lack of a significant increase in demand for new smartphone displays, unlike the increase JDI witnessed in the third quarter of the previous fiscal year, and the suspension of operations at the Hakusan Plant, which produced smartphone displays.

Automotive Category

This category contains sales of automotive displays. Nine-month net sales in this category were JPY 79,616 million (down 4.6% YoY), accounting for 20.5% of total company sales.

Sales decreased compared the same period of the previous fiscal year due to sluggish automobile sales in key regions, as China's economy has experienced a slowdown and trade tensions between the United States and China impacted sales.

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. Nine-month net sales in this category were JPY 36,676 million (down 13.6% YoY), accounting for 9.5% of total net sales.

Despite an increase in ultra-high-definition VR displays, sales of displays for digital cameras and notebook PCs declined, resulting in a YoY drop in sales in this category. During the third quarter, JDI started mass production of its first OLED displays and made strategic moves to diversify into new business domains in the future.

Consolidated Results of Operations for the Third Quarter of FY 2019 (October 1, 2019 to December 31, 2019)

Year on year comparison (Millions of yen)

	3Q-FY 2018	3Q-FY 2019	YoY	
			Change	(%)
Mobile Device Category	210,147	110,959	(99,188)	(47.2)
Automotive Category	26,830	27,204	374	1.4
Non-Mobile Device Category	14,080	11,849	(2,231)	(15.8)
Net sales	251,058	150,013	(101,045)	(40.2)
Gross profit	16,217	10,915	(5,301)	(32.7)
Operating income (loss)	4,337	2,545	(1,792)	(41.3)
Ordinary income (loss)	(254)	(3,302)	(3,047)	-
Net income (loss) attributable to owners of the parent	(2,778)	(6,726)	(3,947)	-
EBITDA*	15,274	6,737	(8,537)	(55.9)

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

Quarter on quarter comparison (Millions of yen)

	2Q-FY 2019	3Q-FY 2019	QoQ	
			Change	(%)
Mobile Device Category	106,839	110,959	4,120	3.9
Automotive Category	26,892	27,204	312	1.2
Non-Mobile Device Category	13,609	11,849	(1,760)	(12.9)
Net sales	147,341	150,013	2,672	1.8
Gross profit	1,114	10,915	9,801	879.8
Operating income (loss)	(8,096)	2,545	10,641	-
Ordinary income (loss)	(12,122)	(3,302)	8,820	-
Net income (loss) attributable to owners of the parent	(25,246)	(6,726)	18,519	-
EBITDA*	(4,095)	6,737	10,833	-

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

Net sales for the third quarter of fiscal year 2019 (October 1, 2019 to December 31, 2019) were JPY 150,013 million, a substantial decrease of 40.2% YoY. The key factor was the suspension of Hakusan Plant operations due to the lack of a significant increase in demand for new smartphone displays. Despite the large decrease in sales, operating income reached black in the amount of JPY 2,545 million due to the positive effects of fixed-cost reductions achieved through the implementation of the structural reforms that were announced on June 12, 2019. Compared with the previous quarter, in which sales increased by only 1.8%, operating income improved by JPY 10,641 million. An ordinary loss of JPY 3,302 million was due to the recording of a share of loss of entities accounted for using the equity method of JPY 4,344 million. A net loss attributable to owners of the parent of JPY 6,726 million was mainly due to the recording of JPY 2,529 million in business restructuring expenses and a JPY 258 million valuation loss on investments in securities.

(2) Overview of Financial Position

Assets, liabilities and net assets

At the end of nine months of fiscal year 2019, total assets were JPY 427,851 million, a decrease of JPY 110,651 million from the end of the previous fiscal year (the end of March 2019). This was mainly due to an increase of JPY 15,112 million in accounts receivable-other and decreases of JPY 19,856 million in cash and deposits, JPY 27,343 million in inventory due to inventory adjustments and JPY 54,365 million in property, plant and equipment partly due to a write-down of manufacturing equipment at the Hakusan Plant.

Liabilities were JPY 536,143 million, a decrease of JPY 1,496 million from the end of the previous fiscal year. This was mainly due to an increase of JPY 60,172 million in interest-bearing debt as part of JPY60,000 million in short-term loans under a bridge-loan agreement and short-term loan agreement with INCJ, Inc., and decreases of JPY 34,879 million in accounts payable-trade and JPY 11,655 million in advances received.

Negative net assets were JPY 108,291 million at the end of nine months, a result of a decrease of JPY 109,154 million in net assets from the end of the previous fiscal year. This was mainly due to a JPY 110,885 million quarterly net loss attributable to owners of the parent.

(3) Note Concerning the Forecast of Consolidated Financial Results

JDI’s main business area is the mobile category. Because volatile demand conditions in this area make it difficult to provide reliable financial forecasts, the company has not disclosed a result forecast for fiscal year 2019. Instead, in the financial results report for the second quarter of fiscal year 2019, the company provided a qualitative outlook for sales and an outlook for expenses for the consolidated fiscal year 2019.

Because a fact-finding investigation by a third-party committee of possible inappropriate accounting treatment and other matters, JDI postponed the announcement of financial results for the third quarter of fiscal year 2019 until today. As of today, the consolidated fiscal year 2019 has ended. For this reason, the forecast for sales for the consolidated fiscal year 2019 are shown below. However, in regard to profits, since it will take time to assess the impact of the contents of the third-party committee's fact-finding report (the "Fact-finding Report"), which JDI received today, on profits and losses for the fourth quarter, the company will continue its policy of not disclosing profit estimates.

Forecast for fiscal year 2019 (ending March 31, 2020)

JDI estimates net sales of approximately JPY 500 billion for fiscal year 2019, around 20% lower on a YoY basis. In the fourth-quarter, JDI expects sales to fall by about 25% from the previous quarter. In addition to seasonal factors, reasons for the sales decline include lower demand from customers experiencing production decreases, a reduced production volume due to production suspensions and lower capacity utilization at back-end manufacturing subsidiaries and EMS (electronic manufacturing services) companies in China as well as a back-end manufacturing subsidiary in the Philippines, and to a shortage of some components due to the effects of the infectious spread of the new coronavirus.

In regard to profits, JDI’s aim was to put income into the black from the third quarter onward through not only reducing fixed costs under the structural reforms implemented in fiscal year 2019, but also through company-wide cost reduction measures that included the reduction of director remuneration and employee bonuses. However, despite achieving a profit in the third quarter, the effects of the spread of the new coronavirus infection made it difficult to turn a profit in the fourth quarter.

JDI will focus on reviewing its supply chain and maintaining production systems to minimize the effects of the new coronavirus on the production side. In addition to the transfer of equipment in the Hakusan Plant as was announced on March 31, 2020, JDI will consider further reductions in fixed costs through the transfer of land and buildings at the Hakusan Plant, make capital investment that target growth markets and continue to improve its product portfolio through commercialization of high value-added products using LTPS and Advanced-LTPS as a common technology base, as part of a continuing effort to stabilize profitability.

JDI will carefully review the impact of the contents of the Fact-finding Report on profits and losses in the fourth quarter of fiscal year 2019 and plans to announce financial results for the full fiscal year 2019 on May 15, 2020.

(4) Material Events Related to Going Concern Assumptions

JDI Group has recorded significant impairment losses for two consecutive fiscal years, along with an operating loss for two consecutive fiscal years, and a net loss attributable to owners of the parent for five consecutive fiscal years, in the previous consolidated fiscal year. In addition, as a result of recording significant impairment losses, along with a significant operating loss, and a quarterly net loss attributable to owners of the parent in the consolidated nine months of fiscal year 2019, the company's liabilities have exceeded assets since the end of the first quarter of FY 2019, thereby raising significant doubts about assumptions concerning JDI's ability to continue as a going concern.

JDI intends to implement measures to immediately resolve this situation.

For details, please refer to "2. Quarterly Consolidated Financial Statements and Important Notes, (3) Notes Pertaining to the Consolidated Financial Statements, a) Notes related to going concern assumptions."

2. Consolidated Financial Statements
(1) Consolidated Balance Sheet

(Millions of Yen)

	March 31, 2019	December 31, 2019
Assets		
Current assets:		
Cash and deposits	68,988	49,132
Accounts receivable - trade	92,225	78,038
Accounts receivable - other	49,699	64,812
Merchandise and finished goods	29,088	15,811
Work in process	23,167	10,780
Raw materials and supplies	18,612	16,933
Other	8,939	8,818
Allowance for doubtful accounts	(103)	(101)
Total current assets	290,618	244,224
Non-current assets:		
Property, plant and equipment:		
Buildings and structures, net	105,546	100,149
Machinery, equipment and vehicles, net	63,999	27,823
Land	10,186	10,005
Lease assets, net	0	2,340
Construction in progress	18,687	4,823
Other, net	4,448	3,361
Total property, plant and equipment	202,870	148,504
Intangible assets:		
Goodwill	8,716	7,626
Other	3,190	1,705
Total intangible assets	11,906	9,332
Investments and other assets:		
Other	33,689	26,483
Allowance for doubtful accounts	(581)	(693)
Total investments and other assets	33,107	25,790
Total non-current assets	247,884	183,626
Total assets	538,502	427,851

(Millions of Yen)

	March 31, 2019	December 31, 2019
Liabilities		
Current liabilities:		
Accounts payable - trade	175,592	140,713
Electronically recorded obligations - operating	2,817	1,473
Short-term loans payable	130,843	188,645
Lease obligations	0	416
Income taxes payable	1,445	2,034
Provision for bonuses	4,345	1,936
Advances received	101,923	90,268
Other	35,945	31,901
Total current liabilities	452,914	457,390
Non-current liabilities:		
Bonds with share acquisition rights	25,000	25,000
Long-term loans payable	30,000	30,000
Lease obligations	—	1,954
Net defined benefit liability	20,052	16,396
Other	9,673	5,402
Total non-current liabilities	84,725	78,752
Total liabilities	537,639	536,143
Net assets		
Shareholders' equity		
Capital stock	114,362	114,362
Capital surplus	231,148	231,148
Retained earnings	(348,833)	(459,683)
Treasury shares	(0)	(0)
Total shareholders' equity	(3,322)	(114,172)
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(1)	0
Foreign currency translation adjustment	8,916	7,241
Remeasurements of defined benefit plans	(6,754)	(3,682)
Total accumulated other comprehensive income	2,160	3,559
Share acquisition rights	53	38
Non-controlling interests	1,972	2,283
Total net assets	862	(108,291)
Total liabilities and net assets	538,502	427,851

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

Consolidated Statement of Income

(Millions of Yen)

	April 1, 2018 – Dec 31, 2018	April 1, 2019 – Dec 31, 2019
Net sales	465,331	387,775
Cost of sales	437,292	392,529
Gross profit (loss)	28,039	(4,754)
Selling, general and administrative expenses	35,462	27,870
Operating profit (loss)	(7,423)	(32,624)
Non-operating income		
Interest income	100	57
Foreign exchange gains	2,487	1,208
Rental income	330	418
Fiduciary obligation fee	901	879
Subsidy income	577	113
Other	589	1,117
Total non-operating income	4,986	3,795
Non-operating expenses		
Interest expenses	1,933	3,115
Share of loss of entities accounted for using equity method	6,728	8,512
Depreciation	441	1,033
Other	5,256	5,141
Total non-operating expenses	14,359	17,803
Ordinary income (loss)	(16,796)	(46,633)
Extraordinary income		
Gain on change in equity	11,943	—
Total extraordinary income	11,943	—
Extraordinary losses		
Business restructuring expenses	—	62,224
Imparement loss	1,884	—
Other	—	465
Total extraordinary losses	1,884	62,689
Income (loss) before income taxes	(6,737)	(109,323)
Income taxes	2,596	1,251
Net income (loss)	(9,333)	(110,574)
Net income attributable to non-controlling interests	480	310
Net income (loss) attributable to owners of the parent	(9,814)	(110,885)

Consolidated Statement of Comprehensive Income

(Millions of Yen)

	April 1, 2018 – Dec 31, 2018	April 1, 2019 – Dec 31, 2019
Net income (loss)	(9,333)	(110,574)
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	1
Foreign currency translation adjustment	(2,369)	(1,674)
Remeasurements of defined benefit plans, net of tax	849	3,072
Total other comprehensive income	(1,522)	1,398
Comprehensive income	(10,855)	(109,175)
Comprehensive income attributable to owners of the parent	(11,336)	(109,486)
Comprehensive income attributable to non-controlling interests	480	310

(3) Notes pertaining to the Consolidated Financial Statements

Notes related to going concern assumptions

JDI Group has recorded significant impairment losses for two consecutive fiscal years, along with an operating loss for two consecutive fiscal years, and a net loss attributable to owners of the parent for five consecutive fiscal years, in the previous consolidated fiscal year. In addition, as a result of recording significant impairment losses, along with a significant operating loss, and a quarterly net loss attributable to owners of the parent in the consolidated cumulative third quarter of FY 2019, the company's liabilities have exceeded assets since the end of the first quarter of consolidated 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, JDI Group aimed to select a new 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. As a result, on April 12, 2019, JDI entered into a CAPITAL AND BUSINESS ALLIANCE AGREEMENT (as amended, the "Suwa Capital and Business Alliance Agreement") with Suwa Investment Holdings, LLC ("Suwa"), and resolved to issue common shares and convertible bonds with stock acquisition rights in JDI to Suwa through third-party allotment (the "Suwa Third-party Allotment"). Also, on August 27, 2019, based on discussions between JDI, ICNJ, Ltd. ("INCJ") being JDI's major shareholder, and Suwa, JDI resolved the following, subject to the condition that the Suwa Third-party Allotment is implemented: (i) issuing Japan Display Inc. class A preferred shares (the "Class A Preferred Shares") to INCJ through third-party allotment (the "Third-party Allotment of Class A Preferred Shares"); (ii) borrowing JPY 50 billion in total from INCJ (the "Senior Loan"); and (iii) transferring all of the shares of JOLED Inc. held by JDI to INCJ as substitute performance (the "Substitute Performance," and together with the Senior Loan and the Third-party Allotment of Class A Preferred Shares, the "Refinance").

However, because JDI received a notice from expected investors in Suwa stating that they will not invest in Suwa, JDI had multiple contacts and held multiple discussions with two or more financial investor candidates, JDI's customer, and business partners, working together with INCJ, so that JDI could flexibly deal with the case where the expected investors in Suwa did not implement the scheduled investment. 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.

As Suwa did not implement the scheduled investment by December 31, 2019, JDI resolved, at its board of directors meeting held on January 31, 2020 after this consolidated cumulative third quarter of FY 2019, to cancel the Suwa Third-party Allotment, and terminated the Suwa Capital and Business Alliance Agreement. JDI (i) resolved, at its board of directors meeting held on January 31, 2020, 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 its board of directors meeting held on January 31, 2020, JDI newly entered into a Preferred Shares Subscription Agreement with INCJ regarding the issuance of the Class A Preferred Shares to INCJ through third-party allotment (the total procurement amount is JPY 102 billion) which is subject to the condition that the Ichigo Trust Third-party Allotment is implemented, and entered into an Amended and Restated Senior Facility

Agreement regarding the Senior Loan and a Memorandum of Amendment regarding the Substitute Performance with INCJ in order to partially amend the Refinance announced 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 has decreased by approximately JPY 148.3 billion, and JDI has recorded a gain on sales of shares along with the Substitute Performance of approximately JPY 30.6 billion. Consequently, as of the submission day of this quarterly report, net liabilities expect to be eliminated.

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. In addition, if Ichigo Trust exercises the 11th Stock Acquisition Rights, JDI will appropriate the funds to be procured by issuing the Class C Preferred Shares of approximately JPY 49.9 billion (proceeds after deducting various issuance expenses) to the prepayment of the above-mentioned loans from INCJ. JDI will, pursuant to the basic agreement entered into with Ichigo Trust on March 13, 2020, proceed with discussions towards the additional fund procurement through third-party allotment (approximately JPY 5 billion) and the additional issuance of stock acquisition rights (if exercised, the procurement amount 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). 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 facilities located in the Hakusan plant which was announced on March 31, 2020, making capital investments targeted at growing markets, and promoting commercialization of high value-added production the common technical basis of which is LTPS and Advanced-LTPS. On the other hand, Sales decrease caused from Stagnation on future supply chains and a decline in consumption 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 quarterly 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.

Notes related to significant changes in shareholders' equity

Not applicable.

Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements

Calculation of tax expenses

With respect to tax expenses, an effective tax rate was reasonably estimated after applying tax effect accounting to income before income taxes for the fiscal year including the third quarter of the current fiscal year, and tax expenses were calculated by multiplying quarterly income before income taxes by the effective tax rate.

Change of accounting policy

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 the third quarter increased by JPY 2,340 million, lease obligations in current liabilities increased by JPY 416 million and lease obligations in non-current liabilities increased by JPY 1,954 million. The impact of this change on profits and losses in the first nine months of the consolidated cumulative fiscal period is immaterial.

Significant subsequent events

Capital Alliance Agreement, etc.

JDI resolved, at its board of directors meeting held on January 31, 2020, to enter into a capital alliance agreement with Ichigo Trust (the "Capital Alliance Agreement"), and to issue Japan Display Inc. class B preferred shares (the "Class B Preferred Shares") through third-party allotment to Ichigo Trust (the "Third-party Allotment of Class B Preferred Shares"), and Japan Display Inc. 11th series stock acquisition rights (the "Stock Acquisition Rights") the underlying shares of which are Japan Display Inc. class C preferred shares (the "Class C Preferred Shares") through third-party allotment to Ichigo Trust (the "Third-party Allotment of Stock Acquisition Rights"), pursuant to the Capital Alliance Agreement.

Also, JDI resolved, at its board of directors meeting held on January 31, 2020, to enter into a Preferred Share Subscription Agreement with INCJ, Ltd. ("INCJ"), and to issue Japan Display Inc. class A preferred shares (the "Class A Preferred Shares") through third-party allotment to INCJ (the "Third-party Allotment of Class A Preferred Shares," and together with the Third-party Allotment of Class B Preferred Shares and the Third-party Allotment of Stock Acquisition Rights, the "Third-party Allotment").

In addition, JDI resolved, at its board or directors meeting held on January 31, 2020, to enter into (i) an Amended and Restated Senior Facility Agreement regarding borrowing funds from INCJ, the total amount of which is JPY 50 billion (the "Senior Loan"), with INCJ (the "Senior Loan Amendment Agreement") and (ii) a Memorandum of Amendment regarding transferring all of the shares of JOLED, Inc. held by JDI to INCJ as substitute performance (together with the Senior Loan and the Third-party Allotment of Class A Preferred Shares, the "Refinance").

Payment concerning both the Third-party Allotment and the Refinance was made on March 26, 2020, which means that they have been completed as of the submission day of this quarterly report. As a result, the scheduled repayment or retirement of JDI's existing debts (Note) has been completed as scheduled.

Furthermore, JDI entered into a basic agreement regarding the additional fund procurement (the "Additional Agreement") with Ichigo Trust on March 13, 2020. As of the submission day of this quarterly report, JDI is proceeding with discussions with Ichigo Trust, pursuant to the Additional Agreement, toward the conclusion of a definitive agreement in which JDI will procure funding of up to JPY 60.4 billion by issuing Japan Display Inc. class D preferred shares (the "Class D Preferred Shares") (the total procurement amount will be approximately JPY 5 billion) and Japan Display Inc. 12th series stock acquisition rights (the "Additional Stock Acquisition Rights") the underlying shares of which are Japan Display Inc. class E preferred shares (the "Class E Preferred Shares") (the issue price of which is JPY 0, and the total procurement amount through the exercise of the Additional Stock Acquisition Rights will be up to JPY 55.4 billion) through third-party allotment to Ichigo Trust. Other terms of the Class D Preferred Shares are currently assumed to be equivalent to those of the Class C Preferred Shares (for example, the initial conversion price concerning the right to request that JDI acquire the Class D Preferred Shares in exchange for common shares of JDI attached to the Class D Preferred Shares will be JPY 50). In addition, the initial conversion price concerning the right to request that JDI acquire the Class E Preferred Shares in exchange for common shares of JDI attached to the Class E Preferred Shares will be JPY 20. Other terms of the Class E Preferred Shares are currently assumed to be equivalent to those of the Class C Preferred Shares.

(Note) This means each of the following debts: (i) the borrowing under the commitment line agreement entered into with three banks (the commitment line amount and the total principal amount of which is JPY 107 billion); (ii) the short-term loan dated December 25, 2019 (the total principal amount of which is JPY 20 billion); (iii) Japan Display Inc. 1st series unsecured subordinated convertible bonds with stock acquisition rights (the outstanding amount of which is JPY 25 billion); (iv) the loan under the loan agreement dated April 18, 2019 (the total principal amount of which is JPY 20 billion); and (v) JPY 26.32 billion that is part of the subordinated loan (the total principal amount of which is JPY 30 billion).

Outline of the Third-party Allotment and the Senior Loan Amendment Agreement is as follows:

1. Third-party Allotment of Class B Preferred Shares

<table>
<tr><td>(1)</td><td>Payment date</td><td>March 26, 2020</td></tr>
<tr><td>(2)</td><td>Type and number of new shares to be issued</td><td>Class B Preferred Shares 672,000,000 shares</td></tr>
<tr><td>(3)</td><td>Issue price</td><td>JPY 75 per share</td></tr>
<tr><td>(4)</td><td>Total amount of issue price</td><td>JPY 50,400,000,000</td></tr>
<tr><td>(5)</td><td>Amount of capital increase</td><td>JPY 37.5 per share</td></tr>
<tr><td>(6)</td><td>Total amount of capital increase</td><td>JPY 25,200,000,000</td></tr>
<tr><td>(7)</td><td>Method of offering or allotment</td><td>Third-party allotment to Ichigo Trust</td></tr>
<tr><td>(8)</td><td>Use of funds</td><td>① Capital investment in growth businesses
② Working capital</td></tr>
<tr><td>(9)</td><td>Other</td><td>Main details of the Class B Preferred Shares are as follows:
<table>
<tr><td>①</td><td>Dividend of surplus</td><td>To be implemented pari passu with common shareholders and registered pledgees of common shares; Class A Preferred Shareholders and registered pledgees of Class A Preferred Shares; and Class C Preferred Shareholders registered pledgees of Class C Preferred Shares</td></tr>
<tr><td>②</td><td>Distribution of</td><td>To be implemented pari passu with Class A Preferred</td></tr>
</table></td></tr>
</table>

		residual assets — Shareholders and registered pledgees of Class A Preferred Shares; and Class C Preferred Shareholders registered pledgees of Class C Preferred Shares (before common shareholders and registered pledgees of common shares)

	residual assets	Shareholders and registered pledgees of Class A Preferred Shares; and Class C Preferred Shareholders registered pledgees of Class C Preferred Shares (before common shareholders and registered pledgees of common shares)
③	Transfer restriction	Transferring the Class B Preferred Shares requires the approval of JDI's board of directors meeting.
④	Voting rights	The number of shares of one unit of the Class B Preferred Shares is 100 shares, and the Class B Preferred Shareholders have voting rights at general meetings of shareholders.
⑤	Cash-consideration call option (mandatory redemption)	JDI has a cash-consideration call option (JDI can acquire the Class B Preferred Shares anytime).
⑥	Cash-consideration put option	N/A
⑦	Common share-consideration call option	N/A
⑧	Common share-consideration put option	Conversion price: JPY 50 Conversion period: On or after the first anniversary of the payment date (meaning on or after March 26, 2021)

Under the Capital Alliance Agreement with Ichigo Trust, if the Class B Preferred Shares are converted to common shares in JDI, Ichigo Trust is prohibited from transferring the common shares in JDI issued through the exercise of put options attached to 336,000,000 Class B Preferred Shares for three years from the payment date of the Class B Preferred Shares, and from transferring the common shares in JDI issued through the exercise of put options attached to 336,000,000 Class B Preferred Shares for five years from the payment date of the Class B Preferred Shares.

2. Third-party Allotment of Stock Acquisition Rights

(1)	Payment date	March 26, 2020
(2)	Total number of stock acquisition rights	672
(3)	Issue price	JPY 0
(4)	Exercise period	From April 1, 2020 to March 31, 2023 (if March 31, 2023 is not a business day for JDI, the immediate day before March 31, 2023)
(5)	Type and number of shares underlying stock acquisition rights	Class C Preferred Shares 672,000,000 shares
(6)	Exercise price	JPY 75 per share
(7)	Method of offering or allotment	Third-party allotment to Ichigo Trust
(8)	Use of funds	Repayment of borrowings

<table>
<tr>
<td>(9)</td>
<td>Other</td>
<td>If the Stock Acquisition Rights are exercised, the planned procurement amount will be up to JPY 50,400,000,000. Main details of the Class C Preferred Shares are as follows:
<table>
<tr><td>①</td><td>Dividend of surplus</td><td>To be implemented pari passu with common shareholders and registered pledgees of common shares; Class A Preferred Shareholders and registered pledgees of Class A Preferred Shares; and Class B Preferred Shareholders registered pledgees of Class B Preferred Shares</td></tr>
<tr><td>②</td><td>Distribution of residual assets</td><td>To be implemented pari passu with Class A Preferred Shareholders and registered pledgees of Class A Preferred Shares; and Class B Preferred Shareholders registered pledgees of Class B Preferred Shares (before common shareholders and registered pledgees of common shares)</td></tr>
<tr><td>③</td><td>Transfer restriction</td><td>Transferring the Class C Preferred Shares requires the approval of JDI's board of directors meeting.</td></tr>
<tr><td>④</td><td>Voting rights</td><td>Class C Preferred Shareholders have no voting rights at general meetings of shareholders.</td></tr>
<tr><td>⑤</td><td>Cash-consideration call option(mandatory redemption)</td><td>JDI has a cash-consideration call option (JDI can acquire the Class C Preferred Shares anytime).</td></tr>
<tr><td>⑥</td><td>Cash-consideration put option</td><td>N/A</td></tr>
<tr><td>⑦</td><td>Common share-consideration call option</td><td>N/A</td></tr>
<tr><td>⑧</td><td>Common share-consideration put option</td><td>Conversion price: JPY 50
Conversion period: On or after the first anniversary of the payment date (a date on which the Class C Preferred Shares are first issued)</td></tr>
</table>
Under the Capital Alliance Agreement with Ichigo Trust, if all or part of the Stock Acquisition Rights are exercised and the Class C Preferred Shares underlying those Stock Acquisition Rights are granted to Ichigo Trust, Ichigo Trust is prohibited from converting them into common shares in JDI until the lapse of the first anniversary of the payment date (the issuance date) of those Class C Preferred Shares.
In addition, under the Additional Agreement, JDI and Ichigo Trust have agreed that if the Additional Stock Acquisition Rights the underlying shares of which are the Class E Preferred Shares are issued, Ichigo Trust will waive all of the Stock Acquisition Rights the underlying shares of which are the Class C Preferred Shares held by Ichigo Trust at the time of such issuance.</td>
</tr>
</table>

3. Third-party Allotment of Class A Preferred Shares

(1)	Payment date	March 26, 2020
(2)	Type and number of new shares to be issued	Class A Preferred Shares 1,020,000,000 shares
(3)	Issue price	JPY 100 per share
(4)	Total amount of issue price	JPY 102,000,000,000
(5)	Amount of capital increase	JPY 50 per share
(6)	Total amount of capital increase	JPY 51,000,000,000

<table>
<tr><td>(7)</td><td>Method of offering or allotment</td><td>Third-party allotment to INCJ</td></tr>
<tr><td>(8)</td><td>Use of funds</td><td>① Repayment of borrowings
② Retirement of bonds with stock acquisition rights</td></tr>
<tr><td>(9)</td><td>Other</td><td>Main details of the Class A Preferred Shares are as follows:
<table>
<tr><td>①</td><td>Dividend of surplus</td><td>To be implemented pari passu with common shareholders and registered pledgees of common shares; Class B Preferred Shareholders and registered pledgees of Class B Preferred Shares; and Class C Preferred Shareholders registered pledgees of Class C Preferred Shares</td></tr>
<tr><td>②</td><td>Distribution of residual assets</td><td>To be implemented pari passu with Class B Preferred Shareholders and registered pledgees of Class B Preferred Shares; and Class C Preferred Shareholders registered pledgees of Class C Preferred Shares (before common shareholders and registered pledgees of common shares)</td></tr>
<tr><td>③</td><td>Transfer restriction</td><td>N/A</td></tr>
<tr><td>④</td><td>Voting rights</td><td>Class A Preferred Shareholders have no voting rights at general meetings of shareholders.</td></tr>
<tr><td>⑤</td><td>Cash-consideration call option (mandatory redemption)</td><td>JDI has a cash-consideration call option (JDI can acquire the Class A Preferred Shares anytime).</td></tr>
<tr><td>⑥</td><td>Cash-consideration put option</td><td>The Class A Preferred Shareholders and registered pledgees of Class A Preferred Shares can claim that JDI acquire the Class A Preferred Shares with cash consideration anytime on or after the third anniversary of the payment date (meaning on or after March 26, 2023)</td></tr>
<tr><td>⑦</td><td>Common share-consideration call option</td><td>N/A</td></tr>
<tr><td>⑧</td><td>Common share-consideration put option</td><td>Conversion price: market price (JPY 225 or more)
Conversion period: On or after the first anniversary of the payment date (meaning on or after March 26, 2021) within a two-week period after the release of JDI's quarterly financial results for each quarterly period</td></tr>
</table>
JDI has agreed with INCJ that INCJ will not exercise its cash-consideration put option.</td></tr>
</table>

4. Senior Loan Amendment Agreement

(1)	Lender	INCJ
(2)	Loan amount	JPY 50,000,000,000
(3)	Interest rate	5 years swap rate + spread (this will be adjusted every 6 months)
(4)	Loan execution date	March 26, 2020
(5)	Repayment due date	March 26, 2025 (prepayment before maturity is permissible)
(6)	Security	The borrowing is secured

Share transfer of an equity method affiliate of JDI

JDI: (i) resolved at the board of directors meeting held on January 31, 2020 to transfer all of the shares of JOLED Inc. ("JOLED") held by JDI to INCJ as substitute performance (the "Share Transfer"); and (ii) entered into a Memorandum of Amendment regarding the Substitute Performance Agreement dated on August 27, 2019 with INCJ, Ltd.
JOLED has been excluded as an equity method affiliate of JDI through the implementation of the Share Transfer.

1. Reason of the Share Transfer
   In order to secure JDI's middle- to long-term stabilization of funds

2. Name of the transferee
   INCJ, Ltd.

3. Date of the Share Transfer
   March 26, 2020

4. Name and business description of the equity method affiliate and transactions with JDI

(1) Name	JOLED Inc.
(2) Description of business	Research, development, manufacturing and sales of OLED displays, their parts, materials, manufacturing equipment and relevant products.
(3) Transactions	New share underwriting, contract operations and property leasing by JDI

5. Number and price of the shares transferred, gain/loss on sales of the shares and voting rights ratio after the Share Transfer

(1) Number of shares held before the change	579, 000 shares (Number of voting rights: 579,000) (Voting rights ratio : 27.9%)
(2) Number of shares transferred	579,000 shares (Number of voting rights: 579,000)
(3) Transfer price	JPY 46,320 million
(4) Gain on sales of shares	JPY 30,594 million
(5) Number of shares held after the change	0 share
(6) Ratio of share held after transferred	- %

(Note)The Share Transfer was implemented as a substitute performance of (i) the loan under the loan agreement with INCJ dated April 18, 2019 (the total principal amount of which is JPY 20 billion) and (ii) the loan under the loan agreement with INCJ dated December 21, 2016 (JPY 26.32 billion of the total principal amount of JPY 30 billion).

Transfer of important assets

JDI entered into a definitive agreement regarding the transfer of part of the equipment located at its Hakusan Plant (the "Asset Transfer") on March 31, 2020 as follows.

1. Reason for Asset Transfer

For efficient use of JDI's company resources and improvement of its financial position

2. Details of the Asset Transfer

Assets to be transferred	LCD equipment of Hakusan Plant
Location of the assets	Hakusan City, Ishikawa Prefecture
Transfer price (approximate)	JPY 21,766 million (note)
Book value	JPY 0 million
Status of the assets	Hakusan Plant operations have been suspended since July 2019.

(Note) The transfer price is an approximate amount calculated by converting the contract transfer price of USD 200 million based on a foreign exchange rate of USD 1 = JPY 108.83.

3. Schedule of Asset Transfer

Resolution at board of directors meeting	March 31, 2020
Conclusion of definitive agreement	March 31, 2020
Asset transfer	Not yet determined

4. Transferee

The transferee is an overseas corporation who is one of JDI's main customers. However, due to a nondisclosure agreement JDI has with the transferee, details concerning the transferee cannot be disclosed. JDI has a business relationship with the transferee but has no capital or personnel relationship. In addition, the transferee is not JDI's related party.

5. Outlook

The impact on business results of the fiscal year ending March 2020 from the Asset Transfer is currently under review and undetermined at present.