November 13, 2019

Japan Display Inc.

Consolidated Financial Results for the Six Months of 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)
Website:	https://www.j-display.com/english/
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Filing of 2Q-FY2019 quarterly securities report:	November 14, 2019
Commencement of dividend payments:	-
Supplementary materials for the 2Q-FY2019 earnings results:	Available
Briefing for 2Q-FY2019 results:	November 13, 2019

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

1. Consolidated results of operations for the six months ended September 30, 2019

(1) Results of operations

(Millions of yen, except per share amounts)

	6 mo. ended Sep. 30, 2019	YoY (%)	**6 mo. ended Sep. 30, 2018**	YoY (%)
Net sales	237,762	11.0	214,273	(42.7)
Operating income (loss)	(35,620)	-	(14,475)	-
Ordinary income (loss)	(43,790)	-	(19,029)	-
Net income (loss) attributable to owners of the parent	(108,672)	-	(9,523)	-
Net income (loss) per share				
-Basic	(128.43)		(11.70)	
-Diluted	-		-	
(Reference) Comprehensive income (loss)	(108,621)	-	(10,204)	-

(2) Financial position

(Millions of yen, except per share amounts)

	Sep. 30, 2019	**Mar. 31, 2019**
Total assets	476,624	545,376
Net assets	(101,612)	7,023
Shareholders' equity ratio (%)	(21.8)	0.9
(Reference) Shareholders' equity	(103,934)	4,997

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

Notes: 1. Changes from the most recently announced dividend forecast: None

3. Financial forecast

JDI forecasts that consolidated net sales for FY 2019 will decrease year on year (YoY). However, the company aims to achieve profitability from the third quarter onward based on cutting fixed costs through structural reforms implemented in the current fiscal year and company-wide cost reduction measures. Details are shown in the attached "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)

	Sep. 30, 2019	**Mar. 31, 2019**
Number of shares outstanding (incl. treasury shares) ·······	846,165,800	846,165,800
Number of treasury shares ·····································	3	3
	6 mo. ended Sep. 30, 2019	**6 mo. ended Sep. 30, 2018**
Average number of shares outstanding ······················	846,165,797	814,066,927

* 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 Six Months of FY 2019 (April 1 – September 30, 2019)

In the market for small-medium display products which are developed, manufactured and sold by JDI, the business environment continued to be severe due to stagnant sales of smartphones, our main display application product area, and intensifying competition from Chinese display makers who are gaining presence. Given these circumstances, in the first six months of FY 2019 JDI took steps to fundamentally improve its business and financial aspects. Production facilities were subject to write down, some factories were closed and structural reforms were implemented that included partial shutdowns and significant personnel reductions. In addition, the company moved forward with efforts to implement capital enhancement measures.

(Millions of yen)

	6 mo. ended Sept. 30, 2018	6 mo. Ended Sept. 30, 2019	YoY Change	YoY (%)
Mobile Device Category	129,259	160,523	31,264	24.2
Automotive Category	56,630	52,411	(4,218)	(7.4)
Non-Mobile Device Category	28,383	24,827	(3,556)	(12.5)
Net sales	214,273	237,762	23,489	11.0
Gross profit	8,561	(16,276)	(24,837)	-
Operating income (loss)	(14,475)	(35,620)	(21,145)	-
Ordinary income (loss)	(19,029)	(43,790)	(24,761)	-
Net income (loss) attributable to owners of the parent	(9,523)	(108,672)	(99,149)	-
EBITDA*	8,252	(24,274)	(32,526)	-

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

Net sales in the first six months of the current fiscal year were 237,762 million yen, up 11.0% year on year (YoY), due in part to the start of shipments of major new products and advanced shipments of some other products.

On the other hand, with regard to profits, it should be noted that an inventory accumulation to support an increase in shipments of new products from the late second quarter contributed to operating profits in the first half of the previous fiscal year. This contribution from inventory accumulation to profitability was not available in the first half of the current fiscal year due to a decrease in inventory. The absence of this contribution resulted in a larger operating loss of 35,620 million yen in the first six months of the current fiscal year compared with the 14,475 million yen operating loss a year earlier, even though sales were higher and fixed costs were lower in the current fiscal year owing to the above-mentioned write down of production facilities. However, the operating loss in the second quarter was reduced by about 19 billion yen compared to the first quarter, and further improvements can be expected toward the second half of the fiscal year when the effects of fixed cost reductions due to personnel reductions are realized.

Also, an ordinary loss of 43,790 million was recorded (compared to a loss of 19,029 million in the same period of the previous fiscal year) partly due to non-operating equity-method investment losses of 4,167 million yen. A net loss attributable to owners of the parent of 108,672 million yen was posted (compared to a loss of 9,523 million yen in the same period of the previous year) after taking into account an extraordinary loss of 63,747 million yen in business structural improvement expenses that included write-downs on smartphone production facilities (mainly business assets at the Hakusan Plant) and early premium retirement benefit.

During the first six months of FY 2019, as part of business structural reforms aimed at the further reduction of fixed costs, the mobile business, which is not expected to see demand recover significantly in the future, was downsized. In response the Hakusan Plant (the Ishikawa Site in Hakusan City, Ishikawa Prefecture) has suspended production (from July 2019 onwards). Also, the Mobara Plant's back-end production line (the V2 line in Mobara City, Chiba Prefecture) was closed. In addition, JDI accepted voluntary retirement applications in Japan, reduced personnel at overseas sales subsidiaries, transferred staff to JOLED, Inc., scaled back executive compensation and employee salaries and took other measures.

In addition, as a result of discussions with a major customer while working to implement the above-mentioned capital increase, an agreement has been reached to work in good faith to increase the volume of purchase orders from the customer. Also, in cooperation with efforts to reinforce JDI's current financial standing, JDI and the customer have agreed that the customer will defer 75% of the amount of their recoupments (JDI's accounts receivables to be offset by JDI's obligation to repay the prepayment made by the customer to JDI), which is provided under the conventional terms and conditions, for a period of two years. Furthermore, from November 2019, the customer will provide additional funding support, including shortening the payment site for JDI. These agreements are an indication that JDI is an important business partner for the customer and that the customer wants a continued business relationship.

Below is an overview of JDI's performance in each of its application categories in the cumulative period.

Mobile Device Category

The Mobile Device Category includes smartphone, tablet and other displays. Cumulative net sales in the first six months of FY 2019 in this category were 160,523 million yen (up 24.2% YoY for the same six-month period) and accounted for 67.6% of total company sales.

In this category, while sales of displays for smartphones have been stagnant due to increased penetration of smartphones and longer smartphone holding periods, the competitive environment has become more severe as Chinese display manufacturers have been increasing production capacities. Nevertheless, JDI's sales increased YoY partly due in part to the start of shipments of major new products and advance shipments of some other products.

Automotive Category

This category contains sales of automotive displays. Cumulative six-month net sales in this category were 52,411 million yen (down 7.4% YoY), accounting for 22.0% of total company sales.

In the automotive display market, sales declined compared with the same period of the previous year due to sluggish automobile sales in China, Europe, the US and other regions.

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. Cumulative six-month net sales in this category were 24,827 million yen (down 12.5% YoY), accounting for 10.4% of total net sales.

The non-mobile category saw higher sales for displays for wearable devices and VR, but sales of digital still camera displays were down due to market shrinkage. Shipments of high-end notebook PC displays declined under the impact of US-China trade frictions. As a result, sales revenue decreased compared with the same period of the previous year.

Consolidated Results for the Second Quarter of FY 2019 (July 1, 2019 to September 30, 2019)

Year on year comparison (Millions of yen)

	2Q-FY 2018	2Q-FY 2019	YoY Change	YoY (%)
Mobile Device Category	66,682	106,839	40,156	60.2
Automotive Category	27,694	26,892	(802)	(2.9)
Non-Mobile Device Category	16,614	13,609	(3,004)	(18.1)
Net sales	110,991	147,341	36,349	32.7
Gross profit	7,365	996	(6,369)	(86.5)
Operating income (loss)	(4,668)	(8,145)	(3,476)	-
Ordinary income (loss)	(6,315)	(12,172)	(5,857)	-
Net income (loss) attributable to owners of the parent	(7,751)	(25,397)	(17,646)	-
EBITDA*	6,221	(4,114)	(10,335)	-

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

Quarter on quarter comparison (Millions of yen)

	1Q-FY 2019	2Q-FY 2019	QoQ Change	QoQ (%)
Mobile Device Category	53,683	106,839	53,155	99.0
Automotive Category	25,519	26,892	1,372	5.4
Non-Mobile Device Category	11,217	13,609	2,391	21.3
Net sales	90,421	147,341	56,920	62.9
Gross profit	(17,272)	996	18,268	-
Operating income (loss)	(27,475)	(8,145)	19,330	-
Ordinary income (loss)	(31,617)	(12,172)	19,444	-
Net income (loss) attributable to owners of the parent	(83,274)	(25,397)	57,876	-
EBITDA*	(20,160)	(4,114)	16,046	-

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

During the second quarter of the current fiscal year (July 1, 2019 to September 30, 2019), the severe environment surrounding the display market continued owing to such factors as the slowdown of global growth in the smartphone market and intensifying competition. Within this environment, sales in JDI's mobile category increased significantly by 99.0% compared to the previous quarter due to the start of shipments of major new products, advanced shipments of some other products and other factors. In the automotive field, sales grew by 5.4% quarter on quarter (QoQ), and in the non-mobile field, sales increased by 21.3% QoQ, mainly for digital still camera and wearable device displays.

In the second quarter, net sales were 147,341 million yen (up 32.7% YoY, up 62.9 QoQ) leading to an operating loss of 8,145 million yen (versus a loss of 4,668 million yen a year earlier and a loss of 27,475 million yen in the previous quarter). Partly due to non-operating equity-method investment losses of 2,136 million yen, an ordinary loss of 12,172 million yen was also recorded (versus a loss of 6,315 million yen a year earlier and a loss of 31,617 million yen in the previous quarter). The quarter finished with a net loss attributable to owners of the parent of 25,397 million yen (versus a loss of 7,751 million yen a year earlier and a loss of 83,274 million yen in the previous quarter) with a recording of 12,054 yen for business structural improvement expenses.

(2) Overview of Financial Position

(i) Assets, liabilities and net assets

Assets

At the end of the second quarter of the FY 2019, current assets were 282,164 million yen, a decrease of 8,733 million yen from the end of the previous fiscal year. This was mainly due to an increase of 25,187 million yen in accounts receivable-other and decreases of 12,199 million yen in cash and deposits, 10,713 million yen in merchandise and finished goods and 11,343 million yen in work in process. Noncurrent assets were 194,477 million yen, down 60,018 million yen from the end of the previous fiscal year. This was due to decreases of 55,167 million yen in property, plant and equipment mainly in connection with a write-down of manufacturing equipment in the Hakusan Plant, 2,202 million yen in intangible assets and 2,648 million yen in investments and other assets.

As a result, total assets at the end of the second quarter of FY 2019 were 476,624 million yen, a decrease of 68,752 million yen from the end of the previous fiscal year.

Liabilities

Current liabilities at the end of the second quarter of FY 2019 were 498,164 million yen, an increase of 45,206 million yen from the end of the previous fiscal year. This was mainly due to an increase of 59,923 million yen in short-term borrowings as part of a 60,000 million-yen loan under a bridge-loan agreement and short-term loan agreements with INCJ, Inc., and decreases of 8,010 million yen in accounts payable-trade and 10,279 million yen in advances received. Non-current liabilities were 80,072 million yen, down 5,323 million yen from the end of the previous fiscal year due in part to reduced retirement benefit liabilities.

As a result, total liabilities at the end of the first quarter of FY 2019 were 578,237 million yen, an increase of 39,883 million yen from the end of the previous fiscal year.

Net assets

JDI had negative net assets of 101,612 million yen at the end of the second quarter of FY 2019 as a result of a 108,635 million yen decrease in net assets from the end of the previous fiscal year. This was mainly due to a 108,672 million yen quarterly net loss attributable to owners of the parent.

As a result, the equity ratio at the end of the first second of the current fiscal year was -21.8% (0.9% at the end of the previous fiscal year).

(ii) Overview of Cash Flows

At the end of the first six months of FY 2019 JDI had cash and cash equivalents of 56,788 million yen, a decrease of 12,199 million yen relative to the end of the previous fiscal year. Cash flows and contributing factors in the period under review are presented below.

Cash flows from operating activities

Net cash used in operating activities in the first six months of FY 2019 was 57,377 million yen (as compared to net cash of 31,015 million yen used in the same period a year earlier). Major plus factors include 11,055 million yen in depreciation and increases of 63,747 million yen in business restructuring expenses and a decrease of 24,333 million yen in inventories, while minus factors include an increase of 25,226 million yen in accounts receivable-other and a decrease of 10,266 million yen in advances received.

Cash flows from investing activities

Net cash used in investing activities in the first six months of FY 2019 was 12,460 million yen (as compared to net cash of 19,172 million yen used in the same period a year earlier) and mainly consisted of 10,831 million yen used to purchase property, plant and equipment and 1,624 million yen in payments for acquisition of investments in securities.

Cash flows from financing activities

Net cash provided by financing activities in the first six months of FY 2019 was 58,974 million yen (as compared to net cash of 30,034 million yen provided in the same period a year earlier), based mainly on an increase of 59,993 million yen in short-term loans payable.

(3) Note Concerning the Forecast of Consolidated Financial Results

JDI does business in the small-medium-sized display industry, which is known for having a highly volatile business climate. Due to the difficulty of making reliable business forecasts, the company provides qualitative information about business conditions and sales, its cost outlook and other matters.

JDI's net sales usually increase significantly in the third quarter of the fiscal year due to sales of new products launched by customers and higher demand for the Christmas season. However, some advance shipments in the second quarter this fiscal year is expected to result in a limited increase in sales in the third quarter. Because sales in the third quarter of the previous fiscal year were at a high level, net sales in the FY 2019 are expected to be lower when compared year on year.

On the other hand, JDI is aiming for profitability from the third quarter onwards, based on reducing fixed costs as well as company-wide cost-reduction measures, including reductions in winter bonuses, and other structural reforms implemented in the current fiscal year.

In addition, JDI will endeavor to eliminate its negative net worth situation and promote the strengthening of its financial position as well as additional business improvements by promptly finalizing arrangements for investments from external sources and refinancing with INCJ.

(4) Material Events Related to Going Concern Assumptions

As of the previous consolidated fiscal year, JDI 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. 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 first six months of FY 2019, the company's liabilities exceeded assets at the end of the second quarter of FY 2019, thereby raising significant doubts about the assumptions concerning the company's ability to continue as a going concern.

JDI is implementing measures to immediately resolve this situation.

For details, please refer to "2. Quarterly Consolidated Financial Statements and Important Notes, (4) 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	Sep 30, 2019
Assets		
Current assets:		
Cash and deposits	68,988	56,788
Accounts receivable - trade	92,225	96,253
Accounts receivable - other	49,699	74,886
Merchandise and finished goods	29,106	18,392
Work in process	23,236	11,893
Raw materials and supplies	18,746	15,294
Other	8,980	8,735
Allowance for doubtful accounts	(103)	(98)
Total current assets	290,880	282,146
Non-current assets:		
Property, plant and equipment:		
Buildings and structures, net	105,792	101,812
Machinery, equipment and vehicles, net	66,632	19,159
Land	12,073	10,003
Lease assets, net	0	2,332
Construction in progress	19,886	17,164
Other, net	4,724	3,470
Total property, plant and equipment	209,110	153,943
Intangible assets:		
Goodwill	8,716	7,990
Other	3,561	2,085
Total intangible assets	12,278	10,075
Investments and other assets:		
Other	33,689	31,150
Allowance for doubtful accounts	(581)	(691)
Total investments and other assets	33,107	30,458
Total non-current assets	254,496	194,477
Total assets	545,376	476,624

(Millions of Yen)

	March 31, 2019	Sep 30, 2019
Liabilities		
Current liabilities:		
Accounts payable - trade	175,592	167,581
Electronically recorded obligations - operating	2,817	1,392
Short-term loans payable	130,843	190,767
Lease obligations	0	302
Income taxes payable	1,489	1,951
Provision for bonuses	4,345	4,050
Advances received	101,923	91,644
Other	35,945	40,474
Total current liabilities	452,957	498,164
Non-current liabilities:		
Bonds with share acquisition rights	25,000	25,000
Long-term loans payable	30,000	30,000
Lease obligations	—	2,049
Net defined benefit liability	20,052	17,024
Other	10,344	5,998
Total non-current liabilities	85,396	80,072
Total liabilities	538,353	578,237
Net assets		
Shareholders' equity		
Capital stock	114,362	114,362
Capital surplus	231,148	231,148
Retained earnings	(342,714)	(451,386)
Treasury shares	(0)	(0)
Total shareholders’ equity	2,796	(105,875)
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(1)	(13)
Foreign currency translation adjustment	8,957	6,254
Remeasurements of defined benefit plans	(6,754)	(4,299)
Total accumulated other comprehensive income	2,200	1,941
Share acquisition rights	53	38
Non-controlling interests	1,972	2,282
Total net assets	7,023	(101,612)
Total liabilities and net assets	545,376	476,624

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

(Millions of Yen)

	April 1, 2018 - Sep 30, 2018	April 1, 2019 – Sep 30, 2019
Net sales	214,273	237,762
Cost of sales	205,711	254,039
Gross profit (loss)	8,561	(16,276)
Selling, general and administrative expenses	23,037	19,344
Operating profit (loss)	(14,475)	(35,620)
Non-operating income		
Interest income	80	43
Foreign exchange gains	3,815	661
Rental income	233	279
Fiduciary obligation fee	606	591
Subsidy income	572	32
Other	294	353
Total non-operating income	5,602	1,962
Non-operating expenses		
Interest expenses	1,288	1,981
Share of loss of entities accounted for using equity method	4,941	4,167
Depreciation	428	436
Other	3,496	3,547
Total non-operating expenses	10,155	10,132
Ordinary income (loss)	(19,029)	(43,790)
Extraordinary income		
Gain on change in equity	11,943	—
Total extraordinary income	11,943	—
Extraordinary losses		
Business restructuring expenses	—	63,747
Total extraordinary losses	—	63,747
Income (loss) before income taxes	(7,085)	(107,538)
Income taxes	2,034	823
Net income (loss)	(9,120)	(108,361)
Net income attributable to non-controlling interests	402	310
Net income (loss) attributable to owners of the parent	(9,523)	(108,672)

Consolidated Statement of Comprehensive Income

(Millions of Yen)

	April 1, 2018 - Sep 30, 2018	April 1, 2019 – Sep 30, 2019
Net income (loss)	(9,120)	(108,361)
Other comprehensive income		
Valuation difference on available-for-sale securities	7	(11)
Foreign currency translation adjustment	(1,719)	(2,703)
Remeasurements of defined benefit plans, net of tax	627	2,455
Total other comprehensive income	(1,084)	(259)
Comprehensive income	(10,204)	(108,621)
Comprehensive income attributable to owners of the parent	(10,607)	(108,931)
Comprehensive income attributable to non-controlling interests	402	310

(4) Consolidated Statement of Cash Flows

	April 1, 2018 - Sep 30, 2018	April 1, 2019 - Sep 30, 2019
Cash flows from operating activities		
Income (loss) before income taxes	(7,085)	(107,538)
Depreciation	22,153	11,055
Amortization of goodwill	1,003	726
Increase (decrease) in allowance for doubtful accounts	(19)	405
Increase (decrease) in retirement benefit liability	(1,466)	(392)
Interest expenses	1,288	1,981
Foreign exchange losses (gains)	(6,655)	1,212
Subsidies received	(572)	(32)
Share of loss (profit) of entities accounted for using equity method	4,941	4,167
Gain on change in equity	(11,943)	—
Business restructuring expenses	—	63,747
Decrease (increase) in trade receivable	3,630	(6,065)
Decrease (increase) in accounts receivable - other	(27,681)	(25,226)
Decrease (increase) in inventories	(19,571)	24,333
Decrease (increase) in consumption taxes refund receivable	1,156	3,074
Increase (decrease) in trade payable	34,803	(8,634)
Increase (decrease) in accounts payable - other	12,845	(2,426)
Increase (decrease) in accrued expenses	(8,063)	606
Increase (decrease) in advances paid	(16,616)	(1,842)
Increase (decrease) in advances received	(13,033)	(10,266)
Other	2,135	(3,797)
Subtotal	(28,752)	(54,911)
Interest and dividends received	80	42
Interest paid	(1,284)	(1,575)
Income taxes paid	(1,059)	(932)
Cash flows from operating activities	(31,015)	(57,377)

(Millions of Yen)		
	April 1, 2018 - Sep 30, 2018	April 1, 2019 - Sep 30, 2019
Cash flows from investing activities		
Purchase of non-current assets	(29,302)	(10,831)
Proceeds from sales of non-current assets	18,929	0
Purchase of investment securities	(5,163)	(1,624)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(4,931)	—
Subsidies received	972	32
Other	323	(38)
Cash flows from investing activities	(19,172)	(12,460)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	29,014	59,993
Redemption of bonds	(20,000)	—
Proceeds from issuance of shares	34,999	—
Repayments of lease obligations	(13,980)	(107)
Repayments of installment payables	—	(911)
Cash flows from financing activities	30,034	58,974
Effect of exchange rate change on cash and cash equivalents	1,520	(1,336)
Net increase (decrease) in cash and cash equivalents	(18,632)	(12,199)
Cash and cash equivalents at beginning of period	80,866	68,988
Cash and cash equivalents at end of period	62,233	56,788

(3) Notes pertaining to the Consolidated Financial Statements

Notes related to going concern assumptions

JDI 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 as of the previous consolidated fiscal year. In addition, along with significant impairment losses, as a result of recording a significant operating loss and a quarterly net loss attributable to owners of the parent in the consolidated first six months of FY 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.

To resolve this situation, JDI has selected a new sponsor as a strategic partner with the aim of establishing OLED display mass production technology and accelerating the commercialization of OLED displays, as stated in JDI's announcement titled "Structural Reform & Outline of Medium-Term Management Plan" issued on August 9, 2017. With the assistance of the new sponsor, JDI has aimed, on the financial side, to (a) secure working capital for current and future business, (b) return its cash flow to normal, (c) acquire funds for investment in future growth, and (d) ensure net assets in order to achieve continued business stability, among other objectives. On the business side, JDI is aiming to quickly realize (a) business improvements based on combining global supply-chain management functions and a broad customer base, (b) commercialization of evaporation OLED displays, and (c) an improved cost structure, among other measures.

In establishing the above-mentioned strategic partnership, JDI held discussions with several potential partners in consultation with INCJ, Inc. ("INCJ"), which is JDI's largest shareholder. As a result, on April 12, 2019, JDI entered into (i) a CAPITAL AND BUSINESS ALLIANCE AGREEMENT with Suwa Investment Holdings, LLC ("Suwa") and (ii) an LCD Business Alliance Basic Agreement with TPK Holding Co., Ltd. ("TPK") in relation to a business alliance on LCDs, and (iii) a Memorandum of Understanding ("MOU") with Harvest Tech Investment Management Co., Ltd. ("Harvest Tech") toward formulating and implementing a business alliance with respect to a plan for the mass production of evaporation OLED displays.

Regarding (i) above, on August 7, 2019, JDI entered into an AMENDED AND RESTATED CAPITAL AND BUSINESS ALLIANCE AGREEMENT, which modifies part of the CAPITAL AND BUSINESS ALLIANCE AGREEMENT (the "Amended and Restated Capital and Business Alliance Agreement"). The reasons for the amendment include that TPK and the CGL Group (Cosgrove Global Limited and Topnotch Corporate Limited), both of which were the expected investors in Suwa, have withdrawn from their positions as expected investors in Suwa, and that there has been changes to total amount of preferred shares to be issued by JDI to INCJ.

In addition, on April 12, 2019 JDI, INCJ and Suwa entered into a Memorandum Of Understanding (MOU) that states (1) INCJ will not enforce any rights and remedies regarding change of control clauses included in INCJ'S existing support, (2) JDI will implement refinancing by way of a new loan and preferred shares and (3) INCJ will provide a bridge loan until the payment of the Third-party allotment. Following this, on May 30, 2019 JDI agreed to transfer all of its shares held in JOLED to INCJ, which would serve as repayment of the full bridge loan received from INCJ (the total principal amount of which was 20 billion yen) and a partial amount of a subordinated loan received from INCJ (the total principal amount of which is 30 billion yen), with the partial amount equal to 24.69 billion yen, for a total of 44.69 billion yen in repayments. Based on this May 30 agreement, and in accordance with the stipulations of the MOU, the total amount of new borrowings was changed from 77 billion yen to 50 billion yen and the total amount of preferred shares was changed from 75 billion yen to 102 billion yen, and INCJ newly agreed to not exercise the right, which is attached to the preferred shares, to request JDI to acquire the preferred shares in exchange for money. Further, based on the MOU and the May 30 agreement, on

August 27, 2019, JDI and INCJ entered into a Senior Facility Agreement to provide JDI with new loans (a total of 50 billion yen). In addition, JDI's board of directors approved a resolution to issue INCJ with preferred shares by way of a third-party allotment, and INCJ and Suwa entered into a Preferred Share Subscription Agreement that would have JDI issue preferred shares (a total of 102 billion yen) to Suwa.

Additionally, as a result of deliberations and negotiations related to the Amended and Restated Capital and Business Alliance Agreement, changes were made to: (i) new shares (the "New Shares") to be issued by JDI to Suwa through third-party allotment, (ii) the 2nd series bonds with stock acquisition rights (the "2nd Series Bonds with Stock Acquisition Rights") to be issued by JDI to Suwa through third-party allotment, and (iii) the 3rd series bonds with stock acquisition rights (the "3rd Series Bonds with Stock Acquisition Rights") to be issued by JDI to Suwa through third-party allotment (the issuance of the New Shares, the 2nd Series Bonds with Stock Acquisition Rights, and the 3rd Series Bonds with Stock Acquisition Rights to be issued by JDI to Suwa through third-party allotment, hereinafter collectively referred to as the "Third-Party Allotment"). Along with these changes, JDI resolved at its board of directors meeting held on August 7, 2019 to change the subscription period and payment period of the New Shares, the subscription period, payment period, and the total issue price of each of the 2nd Series Bonds with Stock Acquisition Rights and the 3rd Series Bonds with Stock Acquisition Rights, and the exercise period of each of the stock acquisition rights of the 2nd and 3rd Series Bonds with Stock Acquisition Rights.

Furthermore, given the withdrawal of TPK from its position as an expected investor of Suwa, on August 9, 2019, JDI and TPK entered into a "Termination Agreement on LCD Business Alliance Basic Agreement," and agreed to terminate the "LCD Business Alliance Basic Agreement" entered into with TPK.

Regarding the fund required for the Third-Party Allotment, among the expected investors, JDI was informed by Harvest Tech Investment Management Co., Ltd. ("Harvest Tech") that (i) it will change its expected investment amount in the New Shares and the 2nd Series Bonds with Stock Acquisition Rights from USD 200 to USD 300 million, to be provided by a fund formed by Harvest Tech (the "Harvest Tech Overseas Fund"), and that (ii) it has made the internal resolutions required to be implemented for the investment. Further, JDI received a commitment letter (USD 300 million) stating Harvest Tech's firm commitment to such investment.

JDI was informed by Mr. Winston Henry Lee of Harvest Tech that Harvest Tech and JDI's customer (the "Customer") agreed that (i) the expected investment amount to be provided by the Harvest Tech Overseas Fund would be changed from USD 300 million to USD 400 million, and (ii) regarding USD 100 million out of the USD 400 million, Harvest Tech would secure the funds to be required for the payment by receiving relevant support from its customer (the "Customer"). In addition, JDI was informed by Harvest Tech that regarding ¥20 billion out of the expected investment amount (¥30 billion) of the 3rd Series Bonds with Stock Acquisition Rights, it had also approved the internal resolutions required for implementing the investment, and JDI received a commitment letter from Harvest Tech stating Harvest Tech's firm commitment to implement such investment (¥20 billion).

Further, on June 28, 2019 JDI was informed by Oasis Management Company Ltd. ("Oasis"), a candidate to become a new expected investor in Suwa, that in regard to an expected investment amount of USD 150-180 million for subscription for the New Shares to be provided by the fund that Oasis operates or advises, its relevant internal bodies had approved the internal resolutions required to implement the investment and, accordingly, JDI received a commitment letter (USD 150-180 million) that states Oasis's firm commitment to implement such investment, the effective period of which ends on December 31, 2019. According to the commitment letter, if JDI and Oasis separately agree, Oasis will invest such investment amount (USD 150-180 million) not through Suwa, but directly to JDI, through the fund that Oasis itself operates or advises.)

In addition, the commitment received from Oasis states that the total new capital (including the investment amount to be provided by Oasis) to be raised by JDI through the issuance of the New Shares, the 2nd Series Bonds with Stock Acquisition Rights, and the 3rd Series Bonds with Stock Acquisition Rights is ¥60 billion or more. Also, regarding the expected investment amount of ¥30 billion to be provided by the Harvest Tech Overseas Fund related to the 3rd Series Bonds with Stock Acquisition Rights, JDI has obtained no firm commitment from Harvest Tech regarding ¥10 billion out of the ¥30 billion. However, the amount indicated in the commitment letter that states Harvest Tech's firm commitment to invest in the New Shares and the 2nd Series Bonds with Stock Acquisition Rights has not decreased, and the total amount (¥80 billion) stated in the commitment letters received from the expected investors and the candidate for expected investor has not changed.

The status of the Amended and Restated Capital and Business Alliance Agreement is as follows as of November 13, 2019.

On September 26, 2019, JDI received notification from Harvest Tech stating that the Harvest Tech Overseas Fund would withdraw from its position as an expected investor in Suwa due to a fundamental difference of opinion about the governance of JDI between Suwa and Harvest Tech. JDI will continue to hold discussions and negotiations with Suwa and Harvest Tech so that Suwa can obtain investment from the Harvest Tech in order to execute the Third-Party Allotment based on this Capital and Business Alliance Agreement.

On the other hand, as a result of discussions with relevant parties in response to the above notification from Harvest Tech, JDI received a letter from the Customer stating that the Customer would alleviate payment terms for transactions with JDI and that the Customer would invest USD 200 million in JDI through Suwa or by other means if Harvest Tech does not directly or indirectly invest in JDI. The letter further states that the customer's support is subject to the condition that JDI closes a round of financing of not less than USD 450 million by the end of December 2019, including investment from the Customer. As also stated in the letter, JDI would receive funding support from the Customer from November 2019, including a shortening of payment periods. Furthermore, as a result of cooperation from several other business partners to ease payment conditions for business transactions, JDI expects to achieve a combined cash flow improvement effect of as much as ¥40 billion. Although cash flow is put at potential risk by some supplier requests for shorter payment periods, multiple suppliers are cooperating with JDI to maintain existing business arrangements given JDI's financial situation announced on October 23, 2019.

In addition, another business company that is a business partner of JDI has verbally expressed its intention to invest USD 50 million in JDI. Furthermore, JDI is continuing discussions with multiple financial investors interested in investing in JDI through Suwa or by other means. If an investment commitment of ¥50 billion or more is obtained from these parties combined, necessary procedures to facilitate the investment will be implemented promptly and an extraordinary meeting of shareholders will be held as necessary to approve the funding arrangements.

Meanwhile, to secure funds necessary to continue its business before the payment of the Third-Party Allotment, on April 18, 2019, JDI entered into a bridge loan agreement with INCJ (¥20 billion), on August 7, 2019, JDI entered into a short-term loan agreement (¥20 billion) with INCJ, and on September 2, 2019, JDI entered into an additional short-term loan agreement (¥20 billion) with INCJ. In the event that JDI needs to secure the additional funds necessary to continue its business before the payment of the Third-Party Allotment, it is assumed that funds will be procured by borrowing or other methods. However, if the additional borrowing is not possible as expected despite JDI needing to procure additional funds to continue its business, the deterioration of cash flow may make it difficult for the company to continue as a going concern.

The capital injection under the Amended and Restated Capital and Business Alliance Agreement is subject to the satisfaction of the conditions agreed with Suwa. If the capital injection is not determined, it could have a material impact on JDI's recovery from negative net assets and its cash flow. Also, even if the capital injection is determined, if JDI fails to bring itself back to profitability through a swift recovery of its business results, it could again have a material impact on JDI's cash flow. Considering these possibilities, at this time there are significant uncertainties regarding the going concern assumptions.

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.

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 second 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 will apply 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 tangible fixed assets at the end of the second quarter increased by ¥2,332 million, lease obligations in current liabilities increased by ¥302 million and lease obligations in non-current liabilities increased by ¥2,049 million. The impact of this change on profits and losses in the first six months of the consolidated cumulative fiscal period is immaterial.