February 10, 2021

Japan Display Inc.

Consolidated Financial Results for FY21/3 Q3 (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: Scott Callon, Chairman, CEO, & Representative Executive Officer,
Contact: Akihito Okochi, CFO & Representative Executive Officer
Phone: +81-3-6732-8100

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

1. FY21/3 Q3 Consolidated Financial Results (April 1, 2020 to December 31, 2020)

(1) Results of operations

(Millions of yen, except per share amounts)

	9 months ended Dec 31, 2019	YoY (%)	**9 months ended Dec 31, 2020**	YoY (%)
Net sales	387,775	(16.7)	272,542	(29.7)
Operating income (loss)	(32,624)	-	(18,627)	-
Ordinary income (loss)	(46,723)	-	(25,964)	-
Net income (loss) attributable to owners of the parent	(110,885)	-	(22,926)	-
Net income (loss) per share				
-Basic (Yen)	(131.04)	-	(9.72)	
-Diluted (Yen)	-	-	-	
(Reference) Comprehensive income (loss)	(109,175)	-	(21,461)	-

(2) Financial position

(Millions of yen)

	Mar 31, 2020	**Dec 31, 2020**
Total assets	389,746	236,687
Net assets	53,363	36,908
Shareholders' equity ratio (%)	13.1	14.5
(Reference) Shareholders' equity	51,103	34,395

2. Dividends

(Yen)

	Q1-end	**Q2-end**	**Q3-end**	**FY-end**	**Total**
FY20/3	-	0.00	-	0.00	0.00
FY21/3	-	0.00	-		
FY21/3 (forecast)				0.00	0.00

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

Note 2. Above "2. Dividends" shows the status of dividends for common stock. See " (Reference) Dividends for Class Shares" below for dividends for class shares (unlisted) that have different rights from common stock issued by JDI.

3. FY21/3 Full-Year Consolidated Earnings Forecast (April 1, 2020 to March 31, 2021)

	FY21/3 (full year)	
	Amount (Millions of yen)	YoY Change
Net sales	342,542	(32.0)%
Operating income	(29,625)	-

Note: Changes from the most recently announced financial forecast: Yes

JDI revised its FY21/3 net sales forecast and newly announced operating income forecast today. For details, please refer to "Note Concerning the Consolidated Earnings Forecast" on page 7.

4. Other

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

(Changes in specified subsidiaries resulting in the change of consolidation scope)

Newly consolidated: None

Removed from consolidation: None

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

For details please see "(III) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements" in "(4) Notes on Quarterly Consolidated Financial Statements" in the attachment.

(3) Changes in accounting policy, changes in accounting estimate and retrospective restatements

(i) Changes in accounting policy in accordance with amendments to accounting standards: None

(ii) Changes in accounting policy other than (i) above: None

(iii) Changes in accounting estimates: None

(iv) Retrospective restatement: None

(4) Number of shares outstanding

(i) Number of shares outstanding (including treasury shares) at period-end

FY21/3 Q3: 2,538,166,300

FY20/3: 2,538,165,800

(ii) Number of treasury shares at period-end

FY21/3 Q3: 3

FY20/3: 3

(iii) Average number of shares outstanding (excluding treasury shares) during the period

FY21/3 Q3 (9 months): 2,359,818,524

FY20/3 Q3 (9 months): 846,165,797

Note: The Class A preferred shares, the Class B preferred shares and the Class D preferred shares have the same rights as common shares in regard to rights to receive dividends of surplus, and are therefore included in the number of shares outstanding at the end of periods and the average number of shares outstanding during the periods.

* Quarterly earnings reports are not subject to quarterly review procedures by independent auditors.

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.

(Reference)

Dividends for Class Shares

Dividends per share for class shares that have different rights to common stock is below.

(Yen)

Class A preferred shares	Q1-end	Q2-end	Q3-end	FY-end	Total
FY20/3				0.00	0.00
FY21/3	-	0.00	-		
FY21/3 (forecast)				0.00	0.00

(Yen)

Class B preferred shares	Q1-end	Q2-end	Q3-end	FY-end	Total
FY20/3				0.00	0.00
FY21/3	-	0.00	-		
FY21/3 (forecast)				0.00	0.00

(Yen)

Class D preferred shares	Q1-end	Q2-end	Q3-end	FY-end	Total
FY21/3		0.00	-		
FY21/3 (forecast)				0.00	0.00

Attachments

1. Quarterly Results Information

(1) Overview of Results of Operations

FY21/3 Q3 (9 months) Consolidated Results of Operations (April 1, 2020 to December 31, 2020)

Year on year comparison (Millions of yen)

	FY20/3 Q3 (9 months)	FY21/3 Q3 (9 months)	YoY Change	YoY (%)
Mobile Device Category	271,483	167,729	(103,753)	(38.2)
Automotive Category	79,616	62,774	(16,841)	(21.2)
Non-Mobile Device Category	36,676	42,038	5,361	14.6
Net sales	387,775	272,542	(115,233)	(29.7)
Gross profit (loss)	(4,754)	4,894	9,649	-
Operating income (loss)	(32,624)	(18,627)	13,997	-
Ordinary income (loss)	(46,723)	(25,964)	20,758	-
Net income (loss) attributable to owners of the parent	(110,885)	(22,926)	87,959	-
EBITDA*	(17,541)	(7,812)	9,728	-

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

The business environment surrounding JDI in the first nine months of FY21/3 remained difficult, as major customers who manufacture smartphones are increasingly adopting OLED displays while fierce competition continues in the small and medium-sized display industry. As a result, orders for the company's liquid crystal displays decreased significantly. Also, restrictions placed on production due to the coronavirus pandemic and related lockdowns and supply chain disruptions in the first half of FY21/3 were lifted in the second half, but a shortage of semiconductor parts and a rise in prices caused by the rapid increase in demand are starting to affect production at JDI and its customers.

Given these circumstances, JDI worked to further reduce costs, managing to lower its fixed costs by approximately JPY 25 billion over the same nine-month period year-on-year (YoY). As part of these fixed cost reductions, the transfer of the Hakusan Plant (Hakusan City, Ishikawa Prefecture), which has had operations suspended since July 2019, was completed on October 1, 2020, resulting in an annual cost saving of approximately JPY 8 billion. The transfer of the plant, a non-performing asset, resulted in reducing liabilities by JPY 74.3 billion (partly due to offsetting with accounts receivable) by allocating the income from the transfer to the repayment of advances received from a customer, which also helped to improve the balance sheet and cash flow. In the third quarter, JDI also recorded a gain on sales of fixed assets due to the transfer of the plant.

In addition, JDI focused on compensating for a drop in sales due to a decrease in orders from a major customer, and achieved an increase in orders in new company business areas: OLEDs for wearable devices and ultra-high-definition liquid crystal displays for VR devices. However, orders for high-value-added modules for smartphone displays, which account for the dominant portion of sales, decreased more than the company expected at the beginning of the nine months. Moreover, although automotive displays have recovered sharply since the second quarter, they have not reached the level of the previous year's nine-month period. Consequently, overall sales for the nine-months of FY21/3 decreased sharply by approximately 30% YoY.

As a result of the above, net sales for the current nine-month period decreased by 29.7% YoY to JPY 272,542 million. While sales declined, the structural reforms implemented in the first half of FY20/3 had the effect of reducing fixed costs, and as a result of a committed effort to reduce costs, gross profit improved by JPY 9,649 million YoY to finish at JPY 4,894 million, while the operating loss decreased by JPY 13,997 million to JPY 18,627 million. One reason for a JPY 20,758 million reduction in ordinary losses to JPY 25,964 million was the transfer of shares in an affiliated company in FY20/3, which made it unnecessary to record equity-method investment losses in FY21/3. Another reason was that interest expenses decreased due to a reduction in interest-bearing debt made possible by refinancing during the fourth quarter of FY20/3. Net losses attributable to owners of the parent fell by JPY 87,959 million YoY to JPY 22,926 million due in part to the recording of extraordinary income associated with the transfer sale of the Hakusan Plant and reduced business structural improvement expenses (extraordinary loss).

Below is an overview of JDI's sales performance in each of its application categories for the first nine months of FY21/3.

Mobile Device Category

Sales in the Mobile Device category include displays for smartphones and tablets. Nine-month sales were JPY 167,729 million, accounting for 61.6% of JDI's total sales. Sales for the nine months fell by 38.2% YoY due to a decrease in orders from one of JDI's main customers, a smartphone manufacturer that has expanded its use of OLED displays. In addition to a maturing smartphone market, changes in customer needs and an intensifying competitive environment in the smartphone display market are unlikely to lead to significantly better sales in this category in the future. As a consequence, on October 1, 2020 JDI completed a transfer sale of its Hakusan Plant, which was the company's main factory for the production of smartphone displays, to reduce fixed costs and improve the balance sheet.

Automotive Category

Sales in the Automotive category center on automotive displays, such as instrument clusters and HUDs. Nine-month sales were JPY 62,774 million, accounting for 23.0% of total sales. Compared to the first quarter, when the unfolding coronavirus pandemic demand caused an unprecedented decline in demand due to production suspensions and distribution disruptions at automobile manufacturers in the main European market, demand has improved significantly from the second quarter onward. However, automobile sales in major countries except China continued to fall below the same period of FY20/3, resulting in a 21.2% sales decrease in this category in the nine-month period.

Non-Mobile Category

The Non-mobile 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 sales were JPY 42,038 million, accounting for 15.4% of total net sales. Sales for the nine months increased by 14.6% YoY due to an increase in shipments of OLEDs for wearable devices, which JDI started to produce in FY20/3, and ultra-high-precision liquid crystal displays for VR equipment.

FY21/3 Q3 (3 months) Consolidated Results of Operations (October 1, 2020 to December 31, 2020)

(Millions of yen)

	FY20/3 Q3 (3 months)	FY21/3 Q3 (3 months)	YoY	
			Change	(%)
Mobile Device Category	110,959	33,765	(77,194)	(69.6)
Automotive Category	27,204	23,955	(3,249)	(11.9)
Non-Mobile Device Category	11,849	15,026	3,177	26.8
Net sales	150,013	72,747	(77,266)	(51.5)
Gross profit (loss)	10,915	(754)	(11,670)	-
Operating income (loss)	2,545	(8,747)	(11,292)	-
Ordinary income (loss)	(3,381)	(10,754)	(7,372)	-
Net income (loss) attributable to owners of the parent	(6,726)	13,360	20,086	-
EBITDA*	6,737	(5,651)	(12,389)	-

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

(2) Overview of Financial Position

(a) Assets, liabilities and net assets

At the end of the third quarter of FY21/3, JDI had total assets of JPY 236,687 million, a decrease of JPY 153,059 million compared to the end of FY20/3. This change was mainly due to decreases in accounts receivable-trade and accounts receivable-other in response to lower sales, a decrease in cash and deposits and a decrease in fixed assets due to the transfer of the Hakusan Plant. Liabilities fell by JPY 136,603 million from the end of FY20/3 to JPY 199,778 million, mainly due to a decrease in accounts payable-trade in reaction to a decline in purchases and the allocation of income from the transfer sale of the Hakusan Plant to the repayment of advances received from a customer. Net assets decreased by JPY 16,455 million from the end of FY21/3 to JPY 36,908 million, partly as a result of a quarterly net loss attributable to owners of the parent of JPY 22,926 million. As a result, JDI ended the quarter with a shareholders' equity ratio of 14.5%, a 1.4-point improvement over 13.1% at the end of FY21/3.

(b) Overview of Cash Flows

Net cash used in operating activities in the first nine months of FY21/3 was JPY 5,763 million. This was due to an increase in working capital in line with the collection of accounts receivable and a recorded loss before income taxes of JPY 22,036 million.

Net cash used in investing activities was JPY 7,788 million, mainly as a result of capital expenditures in the amount of JPY 6,061 million.

Net cash provided by financing activities was JPY 1,154 million, mainly as a result of income of JPY 4,909 million from the issuance of Japan Display Co., Ltd. Class D preferred stock and expenditures of JPY 2,705 million for the repayment of installment obligations.

As a result, the balance of cash and cash equivalents at the end of the third quarter of FY21/3 relative to the end of FY20/3 decreased by JPY 12,508 million to JPY 53,872 million. In addition, free cash flow, which is the sum of cash flow provided by operating activities and expenditures for the acquisition of fixed assets, registered an outflow of JPY 11,825 million.

(3) Note Concerning the Consolidated Earnings Forecast

JDI today revised its FY21/3 consolidated full-year net sales forecast as a range announced on November 13, 2020 and has also provided a full-year operating income forecast (see table below).

JDI expects net sales for the fourth quarter of FY21/3 to decrease YoY due to a decline in orders for smartphone displays and the impact of the global shortage of semiconductors and other components on customers and its production. In addition, FY21/3 operating losses are expected to increase YoY as a result of the decrease in net sales, along with a rise in electric rates for a domestic JDI plant due to rising prices for LNG and components suppliers charging higher prices in response to excess demand. Based on this outlook, JDI's forecast for full-year net sales and operating income are shown in the table below.

(Millions of yen)

	Net sales	Operating income
Previous announced forecast (A)	330,000 - 350,000	—
New forecast (B)	342,542	(29,625)
Increase/decrease (B – A)	12,542 - (7,458)	—
Percent change (%)	3.8% - (2.1)%	—
Reference: FY20/3 results	504,022	(38,536)

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of Yen)

	FY20/3 (Mar 31, 2020)	FY21/3 Q3 (Dec 31, 2020)
Assets		
Current assets:		
Cash and deposits	66,672	54,220
Accounts receivable - trade	70,903	27,862
Accounts receivable - other	48,148	19,193
Merchandise and finished goods	10,131	16,503
Work in process	13,202	9,763
Raw materials and supplies	15,753	14,406
Other	4,699	2,302
Allowance for doubtful accounts	(81)	(86)
Total current assets	229,428	144,166
Non-current assets:		
Property, plant and equipment:		
Buildings and structures, net	97,755	47,591
Machinery, equipment and vehicles, net	26,282	12,671
Land	10,014	6,869
Lease assets, net	1,688	1,376
Construction in progress	3,890	4,817
Other, net	3,176	2,891
Total property, plant and equipment	142,808	76,217
Intangible assets:		
Goodwill	7,263	6,174
Other	1,661	1,623
Total intangible assets	8,924	7,798
Investments and other assets:		
Other	9,276	8,508
Allowance for doubtful accounts	(692)	(2)
Total investments and other assets	8,584	8,505
Total non-current assets	160,318	92,520
Total assets	389,746	236,687

	FY20/3 (Mar 31, 2020)	FY21/3 Q3 (Dec 31, 2020)
		(Millions of Yen)
Liabilities		
Current liabilities:		
Accounts payable - trade	88,439	45,883
Electronically recorded obligations - operating	893	1,058
Short-term loans payable	42,055	21,540
Income taxes payable	2,587	2,079
Provision for bonuses	3,230	1,954
Advances received	89,099	2,308
Other	33,174	29,399
Total current liabilities	259,479	104,225
Non-current liabilities:		
Long-term loans payable	53,680	73,680
Net defined benefit liability	15,579	15,361
Other	7,642	6,511
Total non-current liabilities	76,902	95,553
Total liabilities	336,382	199,778
Net assets		
Shareholders' equity		
Share capital	190,562	193,062
Capital surplus	307,348	92,301
Retained earnings	(450,251)	(255,624)
Treasury shares	(0)	(0)
Total shareholders’ equity	47,659	29, 739
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(0)	0
Foreign currency translation adjustment	6,357	7,496
Remeasurements of defined benefit plans	(2,913)	(2,841)
Total accumulated other comprehensive income	3,444	4,655
Share acquisition rights	40	40
Non-controlling interests	2,219	2,472
Total net assets	53,363	36,908
Total liabilities and net assets	389,746	236,687

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

Consolidated Statement of Income

Consolidated Statement of Income (FY21/3 Q3, 9 months)

(Millions of Yen)

	FY20/3 Q3 (Apr 1, 2019 to Dec 31, 2019)	FY21/3 Q3 (Apr 1, 2020 to Dec 31, 2020)
Net sales	387,775	272,542
Cost of sales	392,529	267,647
Gross profit (loss)	(4,754)	4,894
Selling, general and administrative expenses	27,870	23,522
Operating income (loss)	(32,624)	(18,627)
Non-operating income		
Interest income	57	80
Foreign exchange gains	1,208	—
Rental income	418	412
Fiduciary obligation fee	879	790
Subsidy income	113	90
Other	1,027	482
Total non-operating income	3,705	1,856
Non-operating expenses		
Interest expenses	3,115	1,022
Share of loss of entities accounted for using equity method	8,512	—
Foreign exchange losses	—	1,922
Depreciation	1,033	973
Property maintenance expenses	—	2,168
Other	5,141	3,107
Total non-operating expenses	17,803	9,193
Ordinary income (loss)	(46,723)	(25,964)
Extraordinary income		
Gain on sales of non-current assets	90	19,078
Foreign exchange gains	—	5,629
Gain on reversal of business structure improvement expenses	—	824
Other	—	36
Total extraordinary income	90	25,568
Extraordinary losses		
Business structure improvement expenses	62,224	10,512
Impairment loss	—	10,888
Other	465	238
Total extraordinary losses	62,689	21,639
Income (loss) before income taxes	(109,323)	(22,036)
Income taxes	1,251	637
Net income (loss)	(110,574)	(22, 673)
Net income attributable to non-controlling interests	310	252
Net income (loss) attributable to owners of the parent	(110,885)	(22,926)

Consolidated Statement of Income (FY21/3 Q3, 3 months)

(Millions of Yen)

	FY20/3 Q3 (Oct 1, 2019 to Dec 31, 2019)	FY21/3 Q3 (Oct 1, 2020 to Dec 31, 2020)
Net sales	150,013	72,747
Cost of sales	139.097	73,501
Gross profit (loss)	10,915	(754)
Selling, general and administrative expenses	8,370	7,993
Operating income (loss)	2,545	(8,747)
Non-operating income		
Interest income	13	17
Foreign exchange gains	547	—
Rental income	139	134
Fiduciary obligation fee	287	263
Subsidy income	80	74
Other	679	83
Total non-operating income	1, 748	574
Non-operating expenses		
Interest expenses	1,134	346
Share of loss of entities accounted for using equity method	4,344	—
Foreign exchange losses	—	950
Depreciation	600	12
Compensation expenses	—	583
Other	1,595	687
Total non-operating expenses	7,675	2,581
Ordinary income (loss)	(3,381)	(10,754)
Extraordinary income		
Gain on sales of non-current assets	79	19,062
Foreign exchange gains	—	5,629
Gain on reversal of business structure improvement expenses	—	166
Other	—	36
Total extraordinary income	79	24,895
Extraordinary losses		
Business structure improvement expenses	2,529	304
Impairment loss	—	389
Other	465	—
Total extraordinary losses	2,995	694
Income (loss) before income taxes	(6,297)	13, 447
Income taxes	428	(32)
Net income (loss)	(6,725)	13,479
Net income attributable to non-controlling interests	0	118
Net income (loss) attributable to owners of the parent	(6,726)	13,360

Consolidated Statement of Comprehensive Income

Statement of Comprehensive Income (FY21/3 Q3, 9 months)

(Millions of Yen)

	FY20/3 Q3 (Apr 1, 2019 to Dec 31, 2019)	FY21/3 Q3 (Apr 1, 2020 to Dec 31, 2020)
Net income (loss)	(110,574)	(22, 673)
Other comprehensive income		
Valuation difference on available-for-sale securities	1	0
Foreign currency translation adjustment	(1,674)	1,139
Remeasurements of defined benefit plans, net of tax	3,072	72
Total other comprehensive income	1,398	1,212
Comprehensive income	(109,175)	(21,461)
Comprehensive income attributable to owners of the parent	(109,486)	(21,714)
Comprehensive income attributable to non-controlling interests	310	253

Statement of Comprehensive Income (FY21/3 Q3, 3 months)

(Millions of Yen)

	FY20/3 Q3 (Oct 1, 2019 to Dec 31, 2019)	FY21/3 Q3 (Oct 1, 2020 to Dec 31, 2020)
Net income (loss)	(6,725)	13,479
Other comprehensive income		
Valuation difference on available-for-sale securities	13	0
Foreign currency translation adjustment	1,028	643
Remeasurements of defined benefit plans, net of tax	616	(318)
Total other comprehensive income	1,658	325
Comprehensive income	(5,067)	13,804
Comprehensive income attributable to owners of the parent	(5,068)	13,686
Comprehensive income attributable to non-controlling interests	0	117

(3) Consolidated Statement of Cash Flows

(Millions of Yen)

	FY20/3 Q3 (Apr 1, 2019 to Dec 31, 2019)	FY21/3 Q3 (Apr 1, 2020 to Dec 31, 2020)
Cash flows from operating activities		
Income (loss) before income taxes	(109,323)	(22,036)
Depreciation	15,027	10,698
Amortization of goodwill	1,089	1,089
Impairment loss	—	10,888
Increase (decrease) in allowance for doubtful accounts	406	(4)
Increase (decrease) in net defined benefit liability	(410)	(153)
Interest expenses	3,115	1,022
Foreign exchange losses (gains)	(410)	(4,302)
Subsidies received	(113)	(90)
Share of loss (profit) of entities accounted for using equity method	8,512	—
Loss (gain) on sales of non-current assets	(84)	(19,055)
Gain on reversal of business structure improvement expenses	—	(824)
Business structure improvement expenses	62,224	10,512
Decrease (increase) in accounts receivable - trade	13,676	42,073
Decrease (increase) in inventories	26,847	(2,225)
Increase (decrease) in accounts payable - trade	(36,035)	(41,883)
Decrease (increase) in accounts receivable - other	(15,123)	28,879
Decrease (increase) in consumption taxes refund receivable	2,910	3,710
Increase (decrease) in accounts payable - other	(1,389)	729
Increase (decrease) in accrued expenses	(8,627)	(10,999)
Increase (decrease) in advances received	(11,650)	(9,750)
Other	1,783	(1,560)
Subtotal	(47,575)	(3,282)
Interest and dividends received	55	80
Interest paid	(2,190)	(987)
Income taxes paid	(1,546)	(1,574)
Extra payments for retirements	(7,374)	—
Cash flows from operating activities	(58,631)	(5,763)
Cash flows from investing activities		
Purchase of non-current assets	(13,806)	(6,061)
Proceeds from sales of non-current assets	85	503
Purchase of investment securities	(1,624)	—
Payment for sales of non-current assets	—	(2,235)
Subsidies received	113	90
Other	(78)	(85)
Cash flows from investing activities	(15,310)	(7,788)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	57,818	(517)
Proceeds from issuance of preferred shares	—	4,909
Repayments of installment payables	(1,373)	(2,705)
Repayments of lease obligations	(154)	(232)
Payments for borrowing fee	(1,661)	(300)
Cash flows from financing activities	54,630	1,154
Effect of exchange rate change on cash and cash equivalents	(544)	(109)
Net increase (decrease) in cash and cash equivalents	(19,856)	(12,508)
Cash and cash equivalents at beginning of period	68,988	66,380
Cash and cash equivalents at end of period	49,132	53,872

(4) Notes on Quarterly Consolidated Financial Statements

I. Notes on going concern assumption

JDI has recorded an operating loss and significant impairment losses for three consecutive fiscal years, along with a net loss attributable to owners of the parent for six consecutive fiscal years, in the consolidated FY20/3. Also, JDI recorded a significant operating loss and a loss attributable to owners of the parent in the first 9 months of FY21/3, thereby raising significant doubt about JDI's ability to continue as a going concern.

To resolve this situation, JDI has worked to further reduce its fixed costs and completed the transfers of the production equipment, land, building and ancillary facilities at the Hakusan Plant as of October 1, 2020. Further, JDI will implement an improvement plan to ensure a return to profitability by making capital investments targeted at growing product markets and improving product portfolio through promotion of commercialization of high value-added products using LTPS and Advanced-LTPS technology as common technological basis.

In addition, at the 18th annual general meeting of shareholders and the class meeting by common shareholders held on August 26, 2020, it was resolved that JDI issue Japan Display Inc. class D preferred shares through third-party allotment to Ichigo Trust (the total procurement amount is JPY 5 billion) and Japan Display Inc. 12th series stock acquisition rights, the underlying shares of which are Japan Display Inc. class E preferred shares both through the third-party allotment to Ichigo Trust (the total procurement amount through the exercise of the stock acquisition rights will be up to JPY 55.4 billion). On August 28, 2020, the payment concerning the third-party allotment of Class D Preferred Shares was completed.

Furthermore, on August 6, 2020, JDI agreed with INCJ, Ltd. ("INCJ") to extend (i) the repayment due date of the short-term loan from INCJ 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 from INCJ dated September 2, 2019 (the total principal amount of which is JPY 20 billion) for two years. JDI will continue to implement appropriate financial measures and strive to enhance its capital strength and financial position by improving business performance.

On the other hand, net sales decline as a result of reduced consumer spending and supply chain disruption that may be repeated due to the effects of the coronavirus may delay the stable improvement in business performance that JDI expects and may affect its 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.

II. Notes related to significant changes in shareholders' equity

First nine months of FY20/3 (April 1, 2019 to December 31, 2019)

(1) Dividends
- (i) Dividend payment: None
- (ii) Dividend payment whose record date falls in the first nine months of FY20/3 and whose effective date comes after the end of the third quarter of FY20/3: None

(2) Significant changes in shareholders' equity: Not applicable

First nine months of FY21/3 (April 1, 2020 to December 31, 2020)

(1) Dividends

(i) Dividend payment: None

(ii) Dividend payment whose record date falls in the first nine months of FY21/3 and whose effective date comes after the end of the third quarter of FY21/3: None

(2) Significant changes in shareholders' equity

With the effective date of August 26, 2020, JDI transferred the entire amount of the capital reserve (JPY 217,547 million) to other capital surplus pursuant to Article 448, paragraph (1) of the Companies Act, and the company transferred the amount of other capital surplus transferred from the capital reserve to retained loss carried forward pursuant to Article 452 of the Companies Act.

In addition, on August 28, 2020, JDI received the payment from Ichigo Trust for the third-party allotment of new shares. As a result, amount of capital increased by JPY 2,500 million and amount of capital surplus increased by JPY 2,500 million during the first nine months of FY21/3. At the end of the period, amount of capital was JPY 193,062 million and amount of capital surplus was JPY 92,301 million.

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

Calculation of tax expenses

An effective tax rate was reasonably estimated after applying tax effect accounting to income before income taxes for the FY21/3, including the third quarter of FY21/3, and tax expenses were calculated by multiplying quarterly income before income taxes by the effective tax rate.

IV. Additional information

Accounting estimates concerning coronavirus pandemic

There is no significant change in the outlook regarding the impact of the coronavirus pandemic described in the "Additional information" of "Consolidated Financial Results for Fiscal Year 2019" issued on June 30, 2020.

Details of important non-cash transactions

On October 1, 2020, JDI transferred the assets of its Hakusan Plant to a customer of the company and to a Japanese business. In consideration of this transfer, an equivalent of US$ 675 million has been used to offset US$ 675 million of the advances received from the customer.

As this foreign currency-denominated transaction is a series of non-cash transactions, in the consolidated cash flow statement for the nine-month period of FY21/3, accounting entries have been omitted for the amount equivalent to the income from the sale of fixed assets and the offset of the amount equivalent to advances received, excluding the effect of foreign exchange gains and losses.

End