

Consolidated Financial Results for FY22/3 Q1 (Japanese GAAP)

August 5, 2021

Japan Display Inc.

Tokyo Stock Exchange (First Section) 6740

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Supplemental materials for earnings results: Available

Results briefing: August 5, 2021 (for institutional investors and analysts)

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

1. FY22/3 Q1 Consolidated Financial Results (April 1, 2021 to June 30, 2021)

(1) Results of Operations

	FY21/3 Q1		FY22/3 Q1	
	(JPY million)	YoY	(JPY million)	YoY
Sales	87,999	-2.7%	65,961	-25.0%
Operating income (loss).....	(7,006)	-	(5,872)	-
Ordinary income (loss).....	(8,800)	-	(6,358)	-
Net income (loss) attributable to owners of the parent ...	(16,286)	-	(6,992)	-
Basic net income (loss) per share (JPY)	(7.06)	-	(2.68)	-
Diluted net income (loss) per share (JPY)	-	-	-	-
(Reference) Comprehensive income (loss)	(16,255)	-	(6,396)	-

Note: The ordinary income (loss) for FY21/3 Q1 presented in the table above reflects the effect of an accounting reclassification due to a reclassification in FY21/3 Q3 that resulted from a change in JDI's presentation policy for "gain on sale of fixed assets."

(2) Financial Position

	FY21/3 Q1	FY22/3 Q1
	(JPY million)	(JPY million)
Total assets	224,998	223,167
Net assets	41,829	34,425
Shareholders' equity ratio	17.6%	14.3%
(Reference) Shareholders' equity.....	39,511	31,997

2. Dividends

	Q1	Q2	Q3	Q4	Total
FY21/3	-	0.00	-	0.00	0.00
FY22/3	-				
FY22/3 (forecast).....		0.00	-	0.00	0.00

- (Note) 1 Changes from the most recently announced dividend forecast: None
 2 Above "2. Dividends" shows the status of dividends for common shares. Please See " (Reference) Dividends for Preferred Shares" below for dividends for preferred shares (unlisted) that have different rights from common shares issued by JDI.

3. FY22/3 Consolidated Earnings Forecast

	FY22/3 H1		FY22/3 Full Year	
	(JPY million)	YoY	(JPY million)	YoY
Sales	133,961	-33.0%	280,000	-18.1%
Operating income (loss)	(13,872)	—	—	—

- (Note) 1 Changes from the most recently announced financial forecast: Yes
 2 JDI revised its FY22/3 full year sales forecast today. For details, please see "1. Quarterly Results Information (3) Future Outlook" on page 6.

4. Other Information

- (1) Changes in significant consolidated subsidiaries
 (material changes in scope of consolidation) : None
 New subsidiaries: None
 Subsidiaries 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 estimates, and revisions to previous financial statements
- | | |
|---|------|
| (i) Changes in accounting policy in accordance with amendments to accounting standards: | Yes |
| (ii) Changes in accounting policy other than (i) above: | None |
| (iii) Changes in accounting estimates: | None |
| (iv) Revisions to previous financial statements: | None |
- (4) Number of shares outstanding
- | | |
|--|---------------|
| (i) Number of shares outstanding (including treasury shares) at period-end | |
| FY22/3 Q1: | 2,538,168,239 |
| FY21/3: | 2,538,168,239 |
| (ii) Number of treasury shares at period-end | |
| FY22/3 Q1: | 67 |
| FY21/3: | 4 |
| (iii) Average number of shares outstanding (excluding treasury shares) during the period | |
| FY22/3 Q1: | 2,608,075,437 |
| FY21/3 Q1: | 2,307,045,797 |

Note: All preferred shares outstanding 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 special remarks.

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 Preferred Shares

Dividend per share for preferred shares that have different rights to common shares is shown below.

Class A preferred share	Dividend per Share (JPY)				
	Q1	Q2	Q3	Q4	Total
FY21/3.....	-	0.00	-	0.00	0.00
FY22/3.....	-				
FY22/3 (forecast)	-	0.00	-	0.00	0.00

Class B preferred share	Dividend per Share (JPY)				
	Q1	Q2	Q3	Q4	Total
FY21/3.....	-	-	-	0.00	0.00
FY22/3.....	-				
FY22/3 (forecast)	-	0.00	-	0.00	0.00

Class D preferred share	Dividend per Share (JPY)				
	Q1	Q2	Q3	Q4	Total
FY21/3.....	-	0.00	-	0.00	0.00
FY22/3.....	-				
FY22/3 (forecast)	-	0.00	-	0.00	0.00

Class E preferred share	Dividend per Share (JPY)				
	Q1	Q2	Q3	Q4	Total
FY21/3.....	-	-	-	0.00	0.00
FY22/3.....	-				
FY22/3 (forecast)	-	0.00	-	0.00	0.00

Attachments

1. Quarterly Results Information

(1) Overview of Results of Operations

FY22/3 Q1 (3 months) Consolidated Results of Operations (April 1, 2021 to June 30, 2021)

Year on year comparison

(JPY million)

	FY21/3 Q1	FY22/3 Q1	YoY	
			Change	(%)
Mobile	61,723	30,107	(31,615)	-51.2 %
Automotive	14,769	20,881	6,112	+41.4 %
Non-Mobile	11,506	14,972	3,465	+30.1 %
Sales	87,999	65,961	(22,037)	-25.0 %
Gross profit	1,037	1,392	354	+34.2 %
Operating income (loss)	(7,006)	(5,872)	1,134	-
Ordinary income (loss) (Note 1)	(8,800)	(6,358)	2,442	-
Net income (loss) attributable to owners of the parent	(16,286)	(6,992)	9,293	-
EBITDA (Note 2)	(3,209)	(3,716)	(507)	-

(Note 1) Ordinary income for the FY21/3 Q1 is the amount after reclassification due to a change in the category for gain on sales of fixed assets made in Q3 of FY21/3.

(Note 2) EBITDA = Operating profit + Depreciation (operating costs) + Amortization of goodwill

The business environment surrounding JDI became even more difficult during FY22/3 Q1 due to the severe tightness of supply and demand for semiconductor chips. In response, JDI has reduced the risk of production declines and order declines due to tightness in semiconductor supplies through efforts toward stable medium- to long-term procurement with major semiconductor suppliers. In addition, the company continued to make disciplined cost reductions toward its goal of reaching profitable EBITDA in Q4 of the current fiscal year.

Despite the impact of the semiconductor shortage, sales in Q1 increased YoY in the Automotive and Non-mobile categories, supported by continued strong demand. On the other hand, sales in the Mobile category fell sharply due to a decline in demand for smartphone displays from major customers extending from the previous fiscal year, resulting in overall sales of JPY 65,961 million, down 25.0% YoY. Although sales fell, the operating loss shrank by JPY 1,134 million to JPY 5,872 million due to continued cost reductions and the effect of write down of fixed assets in the previous fiscal year. The ordinary loss decreased by JPY 2,442 million YoY to JPY 6,358 million owing to the disappearance of asset maintenance costs related to the Hakusan Plant following the sale of the plant. Net losses attributable to owners of the parent fell by JPY 9,293 million YoY to JPY 6,992 million due in part to the dissipation of business restructuring expenses. Excluding the impact of the semiconductor shortage, sales were approximately JPY 74,800 million (impact loss was approximately JPY 8,800 million) and the operating loss was approximately JPY 2,800 million (impact loss was approximately JPY 3,100 million).

Overview of Sales by Product in FY22/3 Q1

Mobile

Sales in the Mobile include displays for smartphones and tablets. Q1 sales were JPY 30,107 million (down 51.2% YoY), falling to 45.6% of JDI's total sales. Sales to Chinese customers increase YoY but sales to US/Euro customers declined due to their expanded adoption of OLED displays. In contrast to the forecast of JPY 27,000 million, sales finished higher due to increased demand from customers after the announcement of the forecast.

Q2 sales in this category are forecast to be about the same level as in the Q1 of the current fiscal year, but are expected to gradually decrease from the Q3 onward.

Automotive

Sales in the Automotive consist of automotive displays, such as instrument clusters and HUDs. Q1 sales were JPY 20,881 million, a significant increase of 41.4% compared to the same quarter of the previous fiscal year when sales decreased significantly due to the coronavirus pandemic. The category accounted for 31.7% of total Q1 sales. On the other hand, since the impact of a shortage of semiconductors was greater than expected, sales finished below the forecast of JPY 24,000 million.

The impact of the shortage of automobile-related semiconductors is significant globally, and is expected to continue for the present at JDI. However, in order to meet strong demand from customers, arrangements have been made with major semiconductor suppliers to secure stable medium- to long-term procurement, and it is expected that sales in this category will increase from the second quarter onward.

Non-Mobile

The Non-Mobile includes displays for digital still cameras, wearable devices and other consumer electronics, industrial devices such as medical equipment monitors and income from patents. Q1 sales were JPY 14,972 million (up 30.1% YoY), accounting for 22.7% of total sales. Sales of notebook PC displays decreased, while sales of OLED displays for wearable devices and ultra-high-resolution LCDs for VR devices expanded. Compared to the forecast of JPY 13,000 million, sales were higher, especially due to the increase in sales of displays for VR devices.

Q2 sales in this category are forecast to be about the same level as in the Q1, but are expected to increase from the Q3 onward due to a further increase in sales of displays for wearable devices and VR devices.

(2) Overview of Financial Position

(a) Assets, Liabilities and Net Assets

(JPY million)

	FY21/3 Full Year	FY22/3 Q1	Increase/decrease
Total Assets	224,998	223,167	-1,830
Total liabilities	183,168	188,742	+5,573
Net Assets	41,829	34,425	-7,404
Equity Ratio	17.6%	14.3%	-3.3 points

The balance of total assets at the end of Q1 decreased by JPY 1,830 million from the end of the previous fiscal year to JPY 223,167 million due to a decrease in cash and deposits.

Total liabilities increased by JPY 5,573 million from the end of the previous fiscal year to JPY 188,742 million due to an increase in accounts payable-trade and advances received.

Total net assets decreased by JPY 7,404 million to JPY 34,425 million, mainly due to a decrease in retained earnings in line with the recording of a net loss in Q1.

As a result of the above, the equity ratio was 14.3%, down 3.3 points from the end of the previous fiscal year.

(b) Overview of Cash Flows

(JPY million)

	FY21/3 Q1	FY22/3 Q1	Increase/decrease
Cash Flows from Operating Activities	(15,045)	(8,688)	+6,356
Cash Flows from Investing Activities	(3,142)	(2,172)	+969
Cash flows from Financing Activities	(3,267)	(322)	+2,944
Cash and Cash Equivalents at End of Period	44,945	44,385	-560
Free Cash Flows	(17,254)	(11,017)	+6,236

Note: Free cash flow is the sum of cash flow provided by operating activities and expenditures for the Purchase of non-current asset

Net cash used in operating activities in FY22/3 Q1 was JPY 8,688 million due in part to the quarterly loss before income taxes of JPY 6,673 million. Compared to the same quarter of the previous fiscal year, expenditures decreased due partly to improved working capital.

Net cash used in investing activities was JPY 2,172 million, mainly as a result of acquiring noncurrent assets. Expenditures for the acquisition of noncurrent assets were JPY 2,329 million, which was almost the same level as the same quarter of last year. However, as expenditures related to the sale of the Hakusan Plant (expenditures due to the noncurrent assets) decreased by JPY 1,005 million to zero, expenditures decreased compared with the same quarter of the previous fiscal year.

Net cash used in financing activities was JPY 322 million due to expenses such as JPY 191 million for the repayment of lease obligations. Expenditures decreased compared to the same quarter of the previous fiscal year due in part to JPY 2,705 million less in expenditures for the repayment of installment payables.

(3) Future Outlook

The top table below shows the forecast for sales and operating income for the first six months of FY22/3.

In regard to the FY22/3 full year, as a result of taking into account lower risk associated with a production decrease and an order decrease due to the tight supply of semiconductors, along with an increase in customer demand and the effect of higher product selling prices, the sales forecast announced on May 14, 2021 has been revised as shown in the bottom table below. For details, please refer to the notice titled "First-Quarter Actual Earnings Results Are Above Forecast and Full-Year Earnings Forecast Revised Upward" announced today.

FY22/3 Q2 Consolidated Forecast

(JPY million)

	FY22/3 H1 (6 months) (April 1, 2021 to September 30, 2021)		FY22/3 Q2 (3 months) (July 1, 2021 to September 30, 2021)	
	Sales	Operating Income (Loss)	Sales	Operating Income (Loss)
FY22/3 Q2 Forecast	133,961	(13,872)	68,000	(8,000)
(Reference) FY21/3 Q2	199,795	(9,879)	111,796	(2,872)

FY22/3 Full Year Consolidated Forecast (JPY million)

	Sales
Previous Forecast	254,000
Revised Forecast	280,000
(Reference) FY21/3 full year	341,694

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

	(JPY million)	
	FY21/3 (March 31, 2021)	FY22/3 Q1 (June 30, 2021)
<u>Assets</u>		
Current assets:		
Cash and deposits	55,705	44,744
Accounts receivable - trade	31,213	32,768
Accounts receivable - other	15,332	18,809
Merchandise and finished goods	15,452	16,844
Work in process	11,047	11,866
Raw materials and supplies	13,248	14,857
Other	4,382	4,801
Allowance for doubtful accounts	(79)	(81)
Total current assets	146,304	144,611
Non-current assets:		
Property, plant and equipment:		
Buildings and structures, net	44,565	45,042
Machinery, equipment and vehicles, net	9,904	10,052
Land	6,661	6,661
Lease assets, net	1,458	1,194
Construction in progress	3,795	3,297
Other, net	2,090	2,296
Total property, plant and equipment	68,475	68,545
Intangible assets:		
Goodwill	550	515
Other	1,230	1,189
Total intangible assets	1,780	1,705
Investments and other assets:		
Other	8,441	8,307
Allowance for doubtful accounts	(2)	(2)
Total investments and other assets	8,438	8,305
Total non-current assets	78,694	78,556
Total assets	224,998	223,167

(JPY million)

	FY21/3 (March 31, 2021)	FY22/3 Q1 (June 30, 2021)
<u>Liabilities</u>		
Current liabilities:		
Accounts payable - trade	36,567	41,769
Electronically recorded obligations - operating	844	792
Short-term loans payable	21,424	21,320
Lease obligations	367	522
Income taxes payable	2,161	612
Provision for bonuses	1,675	1,017
Advances received	1,884	4,929
Other	24,437	25,062
Total current liabilities	89,361	96,025
Non-current liabilities:		
Long-term loans payable	73,680	73,680
Lease obligations	1,672	1,631
Net defined benefit liability	13,247	12,973
Other	5,207	4,431
Total non-current liabilities	93,807	92,717
Total liabilities	183,168	188,742
<u>Net assets</u>		
Shareholders' equity		
Share capital	202,757	202,757
Capital surplus	101,996	101,996
Retained earnings	(275,400)	(283,401)
Treasury shares	(0)	(0)
Total shareholders' equity	29,353	21,352
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2	2
Foreign currency translation adjustment	9,804	10,203
Remeasurements of defined benefit plans	352	438
Total accumulated other comprehensive income	10,158	10,644
Share acquisition rights	40	40
Non-controlling interests	2,277	2,387
Total net assets	41,829	34,425
Total liabilities and net assets	224,998	223,167

(2) Consolidated Statement of Income and Comprehensive Income

Consolidated Statement of Income (FY22/3 Q1)

	(JPY million)	
	FY21/3 Q1 (April 1, 2020 to June 30, 2020)	FY22/3 Q1 (April 1, 2021 to June 30, 2021)
Sales	87,999	65,961
Cost of sales	86,961	64,569
Gross profit (loss)	1,037	1,392
Selling, general and administrative expenses	8,044	7,264
Operating profit (loss)	(7,006)	(5,872)
Non-operating income		
Interest income	40	10
Foreign exchange gains	322	—
Rental income	137	128
Fiduciary obligation fee	260	106
Subsidy income	1	8
Other	155	84
Total non-operating income	918	338
Non-operating expenses		
Interest expenses	333	343
Foreign exchange losses	—	77
Depreciation	574	16
Property maintenance expenses	1,293	—
Other	510	385
Total non-operating expenses	2,711	824
Ordinary income (loss)	(8,800)	(6,358)
Extraordinary income		
Gain on sale of non-current assets	0	34
Reversal of business restructuring expenses	657	—
Total extraordinary income	658	34
Extraordinary losses		
Business restructuring expenses	7,618	—
Impairment loss	—	350
Other	238	—
Total extraordinary losses	7,856	350
Income (loss) before income taxes	(15,998)	(6,673)
Total income taxes	279	208
Net income (loss)	(16,277)	(6,882)
Net income attributable to non-controlling interests	8	109
Net income (loss) attributable to owners of the parent	(16,286)	(6,992)

Consolidated Statement of Comprehensive Income (FY22/3 Q1)

	(JPY million)	
	FY21/3 Q1 (April 1, 2020 to June 30, 2020)	FY22/3 Q1 (April 1, 2021 to June 30, 2021)
Net income (loss)	(16,277)	(6,882)
Other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Foreign currency translation adjustment	(172)	399
Remeasurements of defined benefit plans, net of tax	193	86
Total other comprehensive income	22	486
Comprehensive income	(16,255)	(6,396)
of which, Comprehensive income attributable to owners of the parent	(16,264)	(6,505)
of which, Comprehensive income attributable to non-controlling interests	8	109

(3) Consolidated Statement of Cash Flows

(JPY million)

	FY21/3 Q1 (April 1, 2020 to June 30, 2020)	FY22/3 Q1 (April 1, 2021 to June 30, 2021)
Cash flows from operating activities		
Income (loss) before income taxes	(15,998)	(6,673)
Depreciation	4,008	2,138
Amortization of goodwill	363	34
Impairment loss	—	350
Increase (decrease) in allowance for doubtful accounts	23	0
Increase (decrease) in retirement benefit liability	(48)	(191)
Interest expenses	333	343
Foreign exchange losses (gains)	(73)	(50)
Reversal of business structure improvement expenses	7,688	—
Decrease (increase) in trade receivable	32,240	(1,377)
Decrease (increase) in inventories	(7,886)	(4,593)
Increase (decrease) in trade payable	(28,987)	5,020
Decrease (increase) in accounts receivable - other	12,137	(3,475)
Decrease (increase) in consumption taxes refund receivable	(2,688)	78
Increase (decrease) in accounts payable - other	(3,369)	(1,636)
Increase (decrease) in accrued expenses	(4,096)	(1,655)
Increase (decrease) in advances received	(6,507)	3,016
Other	(1,106)	1,005
Subtotal	(13,967)	(7,665)
Interest and Dividends received	40	10
Interest paid	(298)	(347)
Income taxes paid	(818)	(685)
Cash flows from operating activities	(15,045)	(8,688)
Cash flows from investing activities		
Purchase of non-current assets	(2,209)	(2,329)
Proceeds from sales of non-current assets	98	34
Payments for sale of non-current assets	(1,005)	—
Subsidies received	—	8
Other	(25)	113
Cash flows from investing activities	(3,142)	(2,172)

(JPY million)

	FY21/3 Q1 (April 1, 2020 to June. 30, 2020)	FY22/3 Q1 (April 1, 2021 to June. 30, 2021)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(517)	(131)
Repayments of installment payables	(2,705)	—
Repayments of lease obligations	(45)	(191)
Other	—	(0)
Cash flows from financing activities	(3,267)	(322)
Effect of exchange rate change on cash and cash equivalents	20	222
Net increase (decrease) in cash and cash equivalents	(21,434)	(10,961)
Cash and cash equivalents at beginning of period	66,380	55,347
Cash and cash equivalents at end of period	44,945	44,385

(4) Notes to the Quarterly Consolidated Financial Statements

A. Notes Related to Going Concern Assumptions

JDI has recorded an operating loss and significant impairment losses for four consecutive fiscal years, along with a net loss attributable to owners of the company for seven consecutive fiscal years, in the consolidated FY21/3. JDI has also recorded a significant operating loss and quarterly net loss attributable to owners of the company in FY22/3 Q1, thereby raising significant doubt about JDI's ability to continue as a going concern.

In order to resolve this situation, JDI aims to further reduce costs by optimizing business resources that includes making broad-based changes to its business structure, improving facility operating efficiency, optimizing the scale of assets and reexamining the supply chain. As part of this effort, on July 8, 2021, JDI decided at its Board of Directors meeting held on July 8, 2021 to approve the signing of a term sheet (the "Term Sheet") regarding the sale of shares of Kaohsiung Opto-Electronics Inc. ("KOE"), a wholly owned subsidiary of JDI Taiwan, Inc. ("JDIT"). Wistron Group, JDIT and KOE and JDIT signed the Term Sheet on the same day. In addition, JDI plans to achieve profitability by making capital investments targeting growth market and promoting the commercialization of high-value added products based on backplane technology such as LTPS and Advanced-LTPS as well as liquid crystal and OLED technologies that share a common base. Along with this, the product and business portfolio will be reorganized through new development of software services and other businesses related to its high-value added products.

On the financial side, on August 6, 2020 JDI reached an agreement with INCJ, Inc. ("INCJ") to extend repayment of a loan (total principal: JPY 20 billion) received from INCJ on September 2, 2019 by two years from September 3, 2020 to September 3, 2022. Also, through third-party allotments to Ichigo Trust, Class D preferred shares were issued on August 28, 2020 to increase capital by JPY 5 billion and Class E preferred shares were issued following the partial exercise of Japan Display Inc. the 12th Series Stock Acquisition Rights on March 25, 2021 and July 30, 2021 to increase capital by about JPY 19.4 billion and about JPY 16.6 billion, respectively. The unexercised portion of the 12th Series Stock Acquisition Rights (about JPY 19.4 billion) held by Ichigo Trust will be exercised in response to JDI's funding needs, which would increase JDI's capital through the additional issuance of Class E Preferred Shares. JDI will continue to take timely and appropriate financing measures to strengthen its financial position.

However, due to such factors as constraints on the procurement of components in view of global tight supply-demand conditions for semiconductors and fluctuations in customer demand, achieving profitability based on an early-term recovery in business performance may be delayed, which may have a substantial impact on company cash flow. In light of this, there are significant uncertainties regarding going concern assumptions at this time.

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.

B. Notes on Significant Changes in the Amount of Shareholders Equity

Not applicable

C. Accounting Treatment Specific to Preparation for Consolidated Quarterly Financial Statements

(i) Calculation of Tax Expenses

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of tax effect accounting to income before income taxes for the current consolidated fiscal year including the first quarter and multiplying quarterly income or loss before income taxes by such estimated effective tax rate.

D. Changes in Accounting Policies

(ii) Accounting Standard for Revenue Recognition

The "Revenue Recognition Accounting Standard" (ASBJ Statement No. 29, March 31, 2020) and other standards are applied from the beginning of the Q1 of the current consolidated fiscal year to recognize revenue when control of promised goods or services is transferred to customers in an amount that is expected to be received in exchange for those goods or services.

For fee-based supply transactions, JDI previously derecognized the inventory at the time of supply of parts for fee. Based on the new standard JDI has changed the method to continue to recognize the inventory assets assuming the fee-based supply transaction as a financial transaction and recognize the year-end balance of the supplied parts remaining at the recipient as a financial liability.

With regard to the application of the Revenue Recognition Accounting Standard, JDI is following the transitional treatment stipulated in the provisions of paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effect of retrospectively applying the new accounting policy prior to the beginning of FY22/3 Q1 is added to or deducted from retained earnings at the beginning of the FY22/3 Q1 to apply the new accounting policy from the beginning balance of FY22/3.

As a result, sales for FY22/3 Q1 decreased by JPY 43 million, cost of sales decreased by JPY 354 million, and operating income, ordinary income and income before income taxes increased by JPY 310 million each. In addition, the balance of retained earnings at the beginning of FY22/3 increased by JPY 1,008 million.

In accordance with the transitional treatment stipulated in paragraph 28-15 of the Accounting Standard for Quarterly Financial Statements (March 31, 2020) of paragraph 89-2 of the Revenue Recognition Accounting Standards, JDI does not present information disaggregating revenue arising from contracts with customers for the FY22/3 Q1.

(iii) Accounting Standard for Fair Value Measurement

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) and other standards have been applied from the beginning of FY22/3 Q1, and in accordance with the transitional treatment stipulated in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement will continue to be applied into the future. There is no impact on the quarterly consolidated financial statements.

E. Significant Subsequent Events

(i) Capital Increase by the Issuance of Shares on Exercise of Stock Acquisition Rights

On July 30, 2021, JDI issued new shares on exercise of a portion of Japan Display Inc. 12th Stock Acquisition Rights.

(a) Overview of the Partial Exercise of the Stock Acquisition Rights

(1) Name of stock acquisition rights (Note 1)	Japan Display Inc. 12th Series Stock Acquisition Rights (the "12th Series Stock Acquisition Rights")
(2) Total number of stock acquisition rights issued (amount of funds to be raised)	20 (JPY 55,400 million)
(3) Date of partial exercise	July 30, 2021
(4) Exercise price	JPY 10,000,000 per share
(5) Number of stock acquisition rights exercised (total amount of exercise price with respect to the exercise)	6 (JPY 16,620 million)
(6) Class and number of shares issued upon the exercise	Japan Display Inc. Class E Preferred Shares 1,662 shares (Unless otherwise provided for by law, shareholders of the class E preferred shares do not have voting rights at general meetings of shareholders.)
(7) Remaining number of stock acquisition rights (remaining amount of stock acquisition rights)	7 (JPY 19,390 million)
(8) Voting rights ratio of the allottee after the exercise (Note 2)	44.26%

(Note 1) Please refer to "Notice Concerning Conclusion of Capital Alliance Agreement, Issuance of Class D Preferred Shares and Stock Acquisition Rights through Third-party Allotment, and Partial Amendment of Articles of Incorporation" dated July 21, 2020 for details about the 12th Series Stock Acquisition Rights.

(Note 2) The voting rights ratio is calculated by dividing the number of voting rights held by Ichigo Trust after the exercise (6,720,000) by the total number of voting rights in JDI as of March 31, 2021 (15,181,316). The voting rights ratio is rounded off to the second decimal place.

(b) Number of Issued Shares and Amount of Stated Capital

	Before the Exercise of the Stock Acquisition Rights	After the Exercise of the Stock Acquisition Rights
Common Shares	846,165,800 shares	846,165,800 shares
Class A Preferred Shares	1,020,000,000 shares	1,020,000,000 shares
Class B Preferred Shares	672,000,000 shares	672,000,000 shares
Class D Preferred Shares	500 shares	500 shares
Class E Preferred Shares	1,939 shares	3,601 shares
Amount of Stated Capital	JPY 202,757,903,850	JPY 211,067,903,850

As a result of the above, as of August 6, 2021, JDI's total number of issued shares is 2,538,169,901, and the amount of stated capital and capital reserve is JPY 211,067,903,850 and JPY 20,505,000,000, respectively.

(ii) Sale of Shares of Significant Subsidiary

JDI decided at its Board of Directors meeting held on July 8, 2021 to approve the signing of the Term Sheet regarding the sale of shares of Kaohsiung Opto-Electronics Inc. ("KOE"), a wholly owned subsidiary of JDI Taiwan, Inc. ("JDIT"). Wistron Group, JDIT and KOE and JDIT signed the Term Sheet on the same day.

At the completion of the Share Sale, KOE will be excluded from the scope of consolidation of JDI.

(a) Purpose for the Share Sale

The purpose is to strengthen its competitiveness and drive growth by optimizing its asset profile, increasing its cost-competitiveness, and diversifying its supply chain.

(b) Overview of the Subsidiary Being Sold

(1) Name	Kaohsiung Opto-Electronics Inc.
(2) Headquarters	2 East 13th Street, Kaohsiung City, Kaohsiung Export Processing Zone, Taiwan
(3) Business Description	Design, manufacturing, and sale of LCD modules
(4) Relationship with JDI	JDI outsources display module manufacturing to KOE.

(c) Schedule

(1) Date of Resolution of the Board of Directors Meeting and Signing of the Term Sheet	July 8, 2021
(2) Date of Signing of Share Purchase Agreement	August to September 2021 (expected)
(3) Date of Execution of Share Purchase Agreement	September to December 2021 (expected) (Immediately after the approvals of the relevant authorities are obtained.)

(d) Overview of the Buyer

(1) Name	Wise Cap Limited Company
(2) Headquarters	22F, No. 88, Section 1, Xintai 5th Road, Xizhi District, New Taipei City, Taiwan
(3) Business Description	Investment consulting, corporate business management consulting
(4) Relationship with JDI	JDI outsources display module manufacturing to Wistron Group

(e) Number and Price of the Shares Being Sold, and JDIT Share Ownership Before and After the Share Sale

(1) Number of Shares Before the Sale	8,878,300 shares (Ownership & voting rights held by JDIT: 100.0%)
(2) Number of Shares Being Sold	8,878,300 shares
(3) Sale Price	JPY 8,000 million (Note)
(4) Number of Shares After the Sale	0 shares

Note: The sale price is a provisional price set in the Term Sheet and the final price will be determined in the Share Purchase Agreement.

(e) Impact of the Event on Operating Results

The impact of the transfer of the shares on the business results for FY22/3 is under review and is not yet fixed this time.