

Japan Display Inc.

Consolidated Financial Results for the Nine Months of Fiscal Year 2017 (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)
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Filing of 3Q-FY2017 quarterly securities report: February 14, 2018
 Commencement of dividend payments: -
 Supplementary materials for the 3Q-FY2017 earnings results: Available
 Briefing for 3Q-FY2017 results: February 14, 2018

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

1. Consolidated results of operations for the nine months ended December 31, 2017

(1) Results of operations	(Millions of yen, except per share amounts)			
	9 mo. ended Dec. 31, 2017	YoY (%)	9 mo. ended Dec. 31, 2016	YoY (%)
Net sales	565,588	(12.2)	644,191	(20.8)
Operating income (loss).....	(38,897)	-	10,475	(56.2)
Ordinary income (loss).....	(58,536)	-	(9,050)	-
Profit (loss) attributable to owners of the parent.....	(100,611)	-	(9,402)	-
Net income (loss) per share				
-Basic.....	(167.29)		(15.63)	
-Diluted	-		-	
(Reference) Comprehensive income (loss).....	(97,227)	-	(9,656)	-

(2) Financial position	(Millions of yen, except per share amounts)	
	Dec. 31, 2017	Mar. 31, 2017
Total assets	763,193	915,631
Net assets	229,856	327,085
Shareholders' equity ratio (%).....	29.8	35.5
(Reference) Shareholders' equity.....	227,615	324,860

2. Dividends

	Jun. 30	Sep. 30	Dec. 31	FY-end	Total
Year ended Mar. 31, 2017	-	0.00	-	0.00	0.00
Year ending Mar. 31, 2018	-	0.00	-		
Year ending Mar. 31, 2018 (forecast).....				0.00	0.00

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

3. FY 2017 (April 1, 2017 – March 31, 2018) Financial Results Forecast

FY 2017 full-term net sales are expected to decline approximately 20% YoY to 710,000 million yen. For details please refer to the attached “1.Quarterly Results Information (3) A Note about Information Regarding Future Expectations”.

Notes:

- (1) Changes to scope of consolidation: None
- (2) Adoption of special accounting practices for quarterly consolidated financial statements: Yes
For details please see "(3) Notes to the quarterly Consolidated Financial Statements, Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements, Calculation of tax expenses " in "3. 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: None
- b) Changes in accounting policy other than a) above: None
- c) Changes in accounting estimates: None
- d) Retrospective restatement: None

(4) Number of shares outstanding (common shares)

	Dec. 31, 2017	Mar. 31, 2017
Number of shares outstanding (incl. treasury shares).....	601,411,900	601,411,900
Number of treasury shares	-	-
	9 mo. ended Dec. 31, 2017	9 mo. ended Dec. 31, 2016
Average number of shares outstanding	601,411,900	601,411,900

* 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 the Company at the time the document was prepared and 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 Business Results

Consolidated Results for the Nine Months of FY 2017 (April 1, 2017 to December 31, 2017)

(Units: million yen)

	9 months ended Dec. 31, 2016	9 months ended Dec. 31, 2017	YoY	
			Change	%
Mobile device category	530,975	454,480	(76,494)	(14.4)
Automotive & non-mobile device category	113,216	111,107	(2,109)	(1.9)
Net sales	644,191	565,588	(78,603)	(12.2)
Gross profit	48,156	5,307	(42,849)	(89.0)
Operating income (loss)	10,475	(38,897)	(49,373)	-
Ordinary income (loss)	(9,050)	(58,536)	(49,485)	-
Quarterly net income (loss)	(9,402)	(100,611)	(91,208)	-
EBITDA	69,117	24,311	(44,806)	(64.8)

Note: EBITDA = operating profit + depreciation (operating costs) + amortization of goodwill

In the first nine months of FY 2017 competition in the small-medium display industry intensified because of expanded production capacity among overseas display makers and higher penetration of OLED smartphones, which resulted in increased pricing pressure. In addition, small-medium display market underwent changes that included a slowdown in smartphone shipments in the largest market, China.

At JDI, nine-month sales in JDI's mainstay mobile business category declined year-on-year (YoY) under the impact of major customers adding OLED smartphones to their product line-up and heightened competition in the small-medium display market. In the automotive and non-mobile category, sales of displays for consumer electronics fell but higher sales of automotive displays enabled nine-month sales in this category to remain almost flat YoY.

On August 9, 2017 JDI announced a medium-term business plan to improve financial performance from the next fiscal year onward. In the medium-term business plan, implementation of structural reforms was decided and being addressed, which includes a closure of manufacturing line (Nomi Plant) and write down of manufacturing assets and idle assets, workforce reductions, reforms of overseas manufacturing subsidiary and other comprehensive business reforms in order to massively streamline fixed costs.

The implementation of these structural reforms under the medium-term plan along with company-wide efforts to lower variable costs are designed to overcome JDI's existing high-cost structure. Other key goals are solidifying OLED mass manufacturing technology and accelerating OLED commercialization while devoting more management resources to growth areas. The plan is also intended to maximize expected profit opportunities from the next fiscal year onward in both the mobile and non-mobile business categories with the support of high value-added products.

Below is an overview of JDI's performance in each of the company's application categories for the first nine months of FY 2017.

Mobile Device Category

The Mobile Device Category includes displays for smartphones, tablets and conventional mobile phones. Nine-month sales in this category were 454,480 million yen (down 14.4% YoY), accounting for 80.4% of total sales.

In the nine months, sales to the US/Europe regions and China declined YoY due to such reasons as major customers added smartphones equipped with OLED displays to their product lineups, a slowdown in the smartphone market and greater competition in the display market. Sales to other parts of the Asia region rose YoY partly because of higher demand stemming from the capture of new business.

Automotive and Non-Mobile Category

The Automotive and 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 in this category were 111,107 million yen (down 1.9% YoY), accounting for 19.6% of total sales.

Automotive display sales were higher due mainly to larger display sizes and increased shipments. However, sales of displays for consumer electronics devices fell because of the closure of the Mobara Plant V3 line in the previous fiscal year and other factors. As a result, overall nine-month sales in this category were almost flat YoY.

Based on the foregoing sales, JDI's nine-month net sales were 565,588 million yen (down 12.2% YoY). An operating loss of 38,897 million yen (compared with operating income of 10,475 million yen a year earlier) resulted from lower sales and greater fixed costs that mainly included depreciation costs from operations at the Hakusan Plant as well as R&D expenses for OLED development.

An ordinary loss of 58,536 million yen (versus an ordinary loss of 9,050 million yen a year earlier) is mainly attributable to a non-operating loss of 10,032 million yen in share of loss of entities accounted for using equity method and 6,611 million yen in depreciation. Consequently, JDI ended the nine months with a net loss attributable to owners of the parent of 100,611 million yen (versus a net loss of 9,402 million yen a year earlier) as a result of booking 31,192 million yen in business structure improvement expenses as an extraordinary loss.

Consolidated Results for the Third Quarter of FY 2017 October 1, 2017 to December 31, 2017)

Year on year comparison

(Millions of yen)

	3Q-FY 2016	3Q-FY 2017	YoY	
			Change	(%)
Mobile device category	232,162	154,061	(78,099)	(33.6)
Automotive & non-mobile device category	41,047	37,669	(3,377)	(8.2)
Net sales	273,208	191,731	(81,477)	(29.8)
Gross profit	26,660	2,213	(24,447)	(91.7)
Operating income (loss)	12,651	(12,090)	(24,742)	-
Ordinary income (loss)	11,507	(18,357)	(29,864)	-
Profit (loss) attributable to owners of the parent	7,298	(32,577)	(39,875)	-
EBITDA	33,820	8,092	(25,727)	(76.1)

Note: EBITDA = operating profit + depreciation (operating costs) + amortization of goodwill

Quarter on quarter comparison			(Millions of yen)	
	2Q-FY 2017	3Q-FY 2017	QoQ	
			Change	(%)
Mobile device category	148,026	154,061	6,034	4.1
Automotive & non-mobile device category	37,241	37,669	428	1.2
Net sales	185,268	191,731	6,463	3.5
Gross profit	2,054	2,213	159	7.8
Operating income (loss)	(12,364)	(12,090)	273	-
Ordinary income (loss)	(19,565)	(18,357)	1,207	-
Profit (loss) attributable to owners of the parent	(36,577)	(32,577)	4,000	-
EBITDA	8,101	8,092	(8)	(0.1)

Note: EBITDA = operating profit + depreciation (operating costs) + amortization of goodwill

Below is an overview of JDI's performance in each of the company's application categories in the consolidated third quarter that ran from October 1, 2017 to December 31, 2017.

Mobile Device Category

The Mobile Device Category had third-quarter sales of 154,061 million yen (up 4.1% quarter on quarter or QoQ), accounting for 80.4% of total sales.

In the third quarter sales to the US/Europe regions were higher QoQ owing to seasonality. However, the growth rate was lower compared to a typical season due to lower demand for LCDs following the adoption of OLED displays by a major customer. Sales to China were flat QoQ amid weaker smartphone shipments to the China market compared to last year. Sales elsewhere in Asia were lower QoQ as large volume shipments up through the previous quarter fizzled out.

Automotive and Non-Mobile Category

The Automotive and Non-Mobile Category had third-quarter sales of 37,669 million yen (up 1.2% QoQ), accounting for 19.6% of total sales.

Sales of automotive displays and displays for wearable devices were robust. However, because sales of displays for other consumer electronics devices and other products declined in the third quarter total sales in this category were almost flat YoY.

Given this sales performance JDI's third-quarter net sales were 191,731 million yen (down 29.8% YoY and up 3.5% QoQ) and it posted an operating loss of 12,090 million yen (compared with operating income of 12,651 million yen in the same period a year earlier and an operating loss of 12,364 million yen in the previous quarter). A recorded ordinary loss of 18,357 million yen (compared with an ordinary profit of 11,507 million yen a year earlier and a loss of 19,565 million yen in the previous quarter) was partly due to a non-operating loss of 3,576 million yen in share of loss of entities accounted for using the equity method and 2,066 million yen in depreciation. A net loss for the quarter attributable to owners of the parent of 32,577 million yen (compared with net income of 7,298 million yen a year earlier and a loss of 36,577 million yen in the previous quarter) was mainly a result of booking business structure improvement expenses of 14,711 million yen and other extraordinary losses.

(2) Financial Position

(i) Assets, liabilities and net assets

Assets

At the end of the third quarter of FY 2017 JDI had current assets of 312,514 million yen, a decrease of 105,645 million yen versus the end of FY 2016. The main factors were decreases of 21,801 million yen in cash and deposits, 27,942 million yen in accounts receivable-trade and 29,253 million yen in accounts receivable-other. Noncurrent assets were 450,679 million yen, a decrease of 46,792 million yen versus the end of FY 2016, with the main factors being an increase of 582 million yen in investments and other assets along with decreases of 45,512 million yen in property, plant and equipment and 1,862 million yen in intangible fixed assets.

As a result, total assets at the end of the third quarter were 763,193 million yen, a decrease of 152,438 million yen versus the end of FY 2016.

Liabilities

At the end of the third quarter of FY 2017 JDI had current liabilities of 420,254 million yen, a decrease of 49,286 million yen relative to the end of FY 2016. The main factors were an increase of 45,437 million yen in short-term borrowings and decreases of 47,990 million yen in accounts payable-trade and 43,432 million yen in advance receipts. Noncurrent liabilities were 113,082 million yen, a decrease of 5,923 million yen versus the end of FY 2016.

As a result, total liabilities at the end of the third quarter were 533,336 million yen, a decrease of 55,209 million yen relative to the end of FY 2016.

Net assets

Total net assets at the end of third quarter of FY 2017 were 229,856 million yen, a decrease of 97,228 million yen versus the end of FY 2016. The main factor was a 100,611 million yen loss attributable to owners of the parent recorded in the first nine months of FY 2017.

As a result, JDI had a shareholders' equity ratio of 29.8% at the end of the third quarter (35.5% at the end of FY 2016).

(3) A Note about Information Regarding Future Expectations

The current business environment surrounding JDI's main business of smartphone displays is experiencing large fluctuation that results in variety of indeterminate factors for sales expectations. Accordingly, JDI is not providing a financial forecast for fiscal year 2017.

The outlook for JDI's FY 2017 full-term is that financial results will be negatively affected by such factors as a slowdown in smartphone market, an increase in the use of OLED displays in smartphone market and a drop in the company's market share stemming from the increased competition coming from the start of production at rival new LTPS LCD plants in China. As a result, JDI is expecting approximately 710 billion yen sales in its FY 2017 full-term sales, around 20% decline YoY.

JDI has decided to implement fundamental restructuring measures in FY 2017 in line with changes in the display market and the objectives of its business strategy. The business structure improvement expenses associated with this restructuring, which JDI previously announced would be lower than 170 billion yen, is currently undergoing reassessment given observed changes in the business environment .

Information about JDI's restructuring plans and medium-term business policy objectives can be found in two documents released on August 9, 2017: Notice Concerning Structural Reforms, Extraordinary Losses (Business Structure Improvement Expenses) and Reversal of Deferred Tax Assets and Structural Reform & Outline of Medium-Term Management Plan (presentation slides).

2. Material Events Related to Going Concern Assumptions

JDI is currently implementing the structural reforms announced on August 9, 2107. As a result, the recording of a portion of business structure improvement expenses and a net loss attributable to owners of the parent in the accounting of consolidated financial results for the third quarter of FY 2017 raises substantial doubt about the company's ability to continue as a going concern,

However, financial measures that will assure stable funds procurement and financing are being taken to improve cash flow. Also, based on revamping its manufacturing capabilities and streamlining of fixed assets, the selection and elimination of business activities and rebuilding of its organizational structure, JDI is making fundamental structural improvements to rationalize management that will support the transition to a more flexible and leaner corporate structure and bring other positive changes.

These actions are ultimately intended to lead to improvements in earnings. Furthermore, JDI is moving forward with accelerating the establishment of mass manufacturing technology to commercialize OLED displays and strengthening management resources in growth business areas in order to transform and improve its earnings structure. Based upon these observations and measures, JDI has concluded that there is no significant uncertainties related to going concern assumptions.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of Yen)

	As of March 31, 2017	As of December 31, 2017
<u>Assets</u>		
Current assets:		
Cash and deposits	82,247	60,445
Accounts receivable - trade	128,636	100,694
Accounts receivable - other	91,999	62,745
Merchandise and finished goods	32,318	27,141
Work in process	51,764	39,759
Raw materials and supplies	16,815	13,960
Other	14,561	7,906
Allowance for doubtful accounts	(182)	(139)
Total current assets	418,159	312,514
Non-current assets:		
Property, plant and equipment		
Building and structures, net	143,681	134,324
Machinery, equipment and vehicles, net	185,054	152,153
Land	14,392	14,449
Lease assets, net	36,955	18,368
Construction in progress	54,781	73,259
Other, net	12,718	9,516
Total property, plant and equipment	447,584	402,072
Intangible assets		
Goodwill	15,903	14,350
Other	8,680	8,371
Total intangible assets	24,584	22,721
Investments and other assets		
Other	27,521	29,580
Allowance for doubtful accounts	(2,218)	(3,694)
Total investments and other assets	25,302	25,885
Total non-current assets	497,471	450,679
Total assets	915,631	763,193

(Millions of Yen)

	As of March 31, 2017	As of December 31, 2017
<u>Liabilities</u>		
Current liabilities:		
Accounts payable - trade	201,016	153,025
Short-term loans payable	25,700	71,137
Lease obligations	20,519	14,550
Income taxes payable	2,653	3,362
Provision for bonuses	5,521	3,114
Advances received	179,397	135,964
Other	34,732	39,099
Total current liabilities	469,540	420,254
Non-current liabilities:		
Bonds with subscription rights to shares	45,000	45,000
Long-term loans payable	30,000	30,000
Lease obligations	13,980	3,740
Net defined benefit liability	27,408	24,884
Other	2,616	9,457
Total non-current liabilities	119,005	113,082
Total liabilities	588,546	533,336
<u>Net assets</u>		
Shareholders' equity		
Capital stock	96,863	96,863
Capital surplus	256,386	213,648
Retained earnings	(28,788)	(86,661)
Total shareholders' equity	324,461	223,849
Accumulated other comprehensive income		
Deferred gains or losses on hedges	(42)	(31)
Foreign currency translation adjustment	9,368	11,906
Remeasurements of defined benefit plans	(8,927)	(8,109)
Total accumulated other comprehensive income	398	3,765
Subscription rights to shares	45	43
Non-controlling interests	2,179	2,197
Total net assets	327,085	229,856
Total liabilities & net assets	915,631	763,193

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

Consolidated Statement of Income

	(Millions of Yen)	
	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net sales	644,191	565,588
Cost of sales	596,035	560,280
Gross profit	48,156	5,307
Selling, general and administrative expenses	37,680	44,205
Operating profit (loss)	10,475	(38,897)
Non-operating income		
Interest income	45	84
Foreign exchange gains	—	53
Rent income	431	406
Fiduciary obligation fee	776	1,298
Subsidy income	1,881	73
Other	2,349	581
Total non-operating income	5,484	2,498
Non-operating expenses		
Interest expenses	1,909	1,935
Share of loss of entities accounted for using equity method	—	10,032
Foreign exchange loss	7,654	—
Depreciation	6,352	6,611
Other	9,094	3,558
Total non-operating expenses	25,010	22,137
Ordinary profit (loss)	(9,050)	(58,536)
Extraordinary losses		
Business structure improvement expenses	—	31,192
Provision of allowance for doubtful accounts	—	1,467
Early extra retirement payments	1,620	—
Total extraordinary losses	1,620	32,659
Income (loss) before income taxes	(10,671)	(91,196)
Income taxes	(2,344)	9,428
Net income (loss)	(8,327)	(100,624)
Net income (loss) attributable to non-controlling interests	1,075	(13)
Net income (loss) attributable to owners of the parent	(9,402)	(100,611)

Consolidated Statement of Comprehensive Income

(Millions of Yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net income (loss)	(8,327)	(100,624)
Other comprehensive income		
Deferred gains or losses on hedges	156	10
Foreign currency translation adjustments	(1,875)	2,568
Remeasurements of defined benefit plans, net of tax	390	818
Total other comprehensive income	(1,328)	3,397
Comprehensive income	(9,656)	(97,227)
Comprehensive income attributable to non-controlling interests	(10,720)	(97,244)
Comprehensive income attributable to owners of the parent	1,064	17

(3) Notes to the quarterly Consolidated Financial Statements

Notes on premise of a going concern

Not applicable

Notes on significant changes in shareholders' equity

Not applicable

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

Calculation of tax expenses

Tax expenses are calculated by multiplying profit before income taxes by the estimated effective tax rate, which is reasonably estimated for the profit before income taxes for the consolidated fiscal year, including this first quarter, after applying tax-effect accounting.