February 14, 2019

Japan Display Inc.

Consolidated Financial Results for the Nine Months of Fiscal Year 2018
(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/
Representative: Nobuhiro Higashiiriki, Chairman and CEO
Contact: Takanobu Oshima, Chief Financial Officer
Phone: +81-3-6732-8100

Filing of 3Q-FY2018 quarterly securities report: February 14, 2019
Commencement of dividend payments: -
Supplementary materials for the 3Q-FY2018 earnings results: Available
Briefing for 3Q-FY2018 results: February 14, 2019

(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, 2018

(1) Results of operations (Millions of yen, except per share amounts)

	9 mo. ended Dec. 31, 2018	YoY (%)	**9 mo. ended Dec. 31, 2017**	YoY (%)
Net sales	465,331	(17.7)	565,588	(12.2)
Operating income (loss)	(10,626)	-	(38,897)	-
Ordinary income (loss)	(19,727)	-	(58,536)	-
Net income (loss) attributable to owners of the parent	(10,861)	-	(100,611)	-
Net income (loss) per share				
-Basic	(13.17)		(167.29)	
-Diluted				
(Reference) Comprehensive income (loss)	(11,902)		(97,227)	

(2) Financial position (Millions of yen, except shareholders' equity ratio)

	Dec. 31, 2018	**Mar. 31, 2018**
Total assets	679,954	614,644
Net assets	105,146	82,046
Shareholders' equity ratio (%)	15.1	13.1
(Reference) Shareholders' equity	102,952	80,336

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: Changes from the most recently announced dividend forecast: Yes

3. Financial forecast

JDI has revised its consolidated earnings forecast for the fiscal year ending March 31, 2019, announced on November 12, 2018, due to a significant decline in demand from customers. Based on our new consolidated earnings forecast, we now expect net sales decreasing approximately 10% compared to the last fiscal year and an operating loss of over ¥20 billion. Details can be found in "(3) Note Concerning the Forecast of Consolidated Financial Results" of "1. Quarterly Results Information" in the attachments.

Notes:

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

Newly consolidated: -

Removed from consolidation: -

(2) Adoption of special accounting practices for quarterly consolidated financial statements: Yes

For details please see "(c) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements" in "(3) Notes pertaining to the Consolidated Financial Statements" of "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, 2018	**Mar. 31, 2018**
Number of shares outstanding (incl. treasury shares)………	846,165,800	601,411,900
Number of treasury shares …………………………………	3	-
	9 mo. ended Dec. 31, 2018	**9 mo. ended Dec. 31, 2017**
Average number of shares outstanding ……………………	824,805,459	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 Results of Operations

Consolidated Results of Operations for Nine Months of FY 2018 (April 1 – December 31, 2018)

(Millions of yen)

	9 mo. ended Dec. 31, 2017	9 mo. Ended Dec. 31, 2018	YoY Change	YoY (%)
Mobile Device Category	454,480	339,406	(115,073)	(25.3)%
Automotive Category*1	77,867	83,460	5,593	7.2%
Non-Mobile Device Category*1	33,240	42,464	9,223	27.7%
Net sales	565,588	465,331	(100,256)	(17.7)%
Gross profit	5,307	23,924	18,617	350.8%
Operating income (loss)	(38,897)	(10,626)	28,271	-
Ordinary income (loss)	(58,536)	(19,727)	38,809	-
Net income (loss) attributable to owners of the parent	(100,611)	(10,861)	89,749	-
EBITDA*2	24,311	23,419	(892)	(3.7)%

Notes: *1. As of the first quarter of FY 2018 the heretofore "Automotive & Non-Mobile Device Category" has been separated into the "Automotive Category" and the "Non-Mobile Category."

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

In the first nine months of the FY 2018 (hereinafter referred to as the "first nine months"), the severe competitive environment in the small-medium display industry continued due to an expansion of the manufacturing capacity of overseas display manufacturers and increased adoption of OLED displays for smartphones by customers.

In the smartphone market, which is the largest market for small-medium displays, the launches of high-end smartphones featuring narrow-bezel displays led to increased shipments of JDI’s FULL ACTIVE™ from the end of the second quarter of the fiscal year under review. However, the market as a whole was sluggish likely due to such factors as the economic slowdown in China and longer life cycles for smartphones. As a result, demand for displays from JDI's major customers was also affected more than expected.

Although sales in the Automotive and Non-Mobile Device Category for the first nine months increased compared to the same nine-month period in the previous fiscal year, total net sales in the first nine months declined due to a drop in demand in the Mobile Device Category, a key business area of JDI.

As a result of the above, net sales for the first nine months of the current fiscal year were ¥465,331 million (down 17.7% YoY). Despite a YoY decline in net sales, an operating loss of ¥10,626 million (compared with an operating loss of ¥38,897 million a year earlier) showed YoY improvement, mainly due to the results of structural reforms implemented in FY 2017. Nevertheless, an operating loss remained. An ordinary loss of ¥19,727 million (compared to an ordinary loss of ¥58,536 million a year earlier) was recorded due to the recording of foreign exchange gains of ¥2,487 million and share of loss of entities accounted for using equity method in the amount of ¥6,728 million as non-operating items. A net loss attributable to owners of the parent of ¥10,861 million was also recorded (compared with a net loss attributable to owners of the parent of ¥100,611 million a year earlier). This was mainly due to the recording of a gain on change in equity of ¥11,943 million associated with a capital increase at equity-method affiliate JOLED Inc. during the first quarter of the current fiscal year.

The following is an overview of JDI's performance in each of the Company's application categories in the first nine months of FY 2018.

Mobile Device Category

This category includes displays for smartphones and tablets. Net sales for the first nine months in this category were ¥339,406 million (down 25.3% YoY), accounting for 73.0% of total net sales.

The releases of high-end smartphones using narrow-bezel displays by customers during this period resulted in a significant increase in JDI's shipments of FULL ACTIVE™ in the third quarter. However, YoY net sales were down due to customer inventory adjustments in the first half of the fiscal year and intensifying market competition.

Automotive Category

This category includes net sales of automotive displays. Net sales for the first nine months in this category were ¥83,460 million (up 7.2% YoY), accounting for 18.0% of total net sales.

Automotive display net sales increased YoY thanks to an increase in the number of displays mounted on vehicles and an increase in display size, despite sluggish growth in automobile sales due to the impact of exhaust gas regulations for Worldwide Harmonised Light Vehicle Test Procedure (WLTP) in Europe and the slowdown in the Chinese economy.

Non-Mobile Device 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. Net sales for the first nine months in this category were ¥42,464 million (up 27.7% YoY), accounting for 9.0% of total net sales.

Despite a decrease in sales of digital camera and game console displays, net sales in this category increased mainly due to an increase in sales of displays for wearable devices and high-end notebook PCs.

Consolidated Results for the third Quarter of FY 2018 (October 1, 2018 to December 31, 2018)

Year on year comparison (Millions of yen)

	3Q-FY 2017	3Q-FY 2018	YoY	
			Change	(%)
Mobile Device Category	154,061	210,147	56,085	36.4 %
Automotive Category	26,808	26,830	21	0.1 %
Non-Mobile Device Category	10,861	14,080	3,219	29.6 %
Net sales	191,731	251,058	59,326	30.9 %
Gross profit	2,213	15,363	13,149	594.1 %
Operating income (loss)	(12,090)	3,849	15,940	-
Ordinary income (loss)	(18,357)	(698)	17,659	-
Net income (loss) attributable to owners of the parent	(32,577)	(1,338)	31,239	-
EBITDA*	8,092	15,166	7,074	87.4 %

Quarter on quarter comparison (Millions of yen)

	2Q-FY 2018	3Q-FY 2018	QoQ	
			Change	(%)
Mobile Device Category	66,682	210,147	143,464	215.1 %
Automotive Category	27,694	26,830	(864)	(3.1) %
Non-Mobile Device Category	16,614	14,080	(2,533)	(15.2) %
Net sales	110,991	251,058	140,066	126.2 %
Gross profit	7,365	15,363	7,997	108.6 %
Operating income (loss)	(4,668)	3,849	8,518	-
Ordinary income (loss)	(6,315)	(698)	5,617	-
Net income (loss) attributable to owners of the parent	(7,751)	(1,338)	6,413	-
EBITDA*	6,221	15,166	8,945	143.8 %

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

During the third quarter of the fiscal year ended December 31, 2018, the market environment remained harsh due to such factors as the global slowdown in the smartphone market and intensifying competition in the display market. Amidst this environment, JDI began shipments of its narrow-bezel LCD FULL ACTIVE™ for smartphones. However, demand from customers for smartphone displays declined because the overall smartphone market turned sluggish apparently due to such factors as the economic slowdown in China and the longer life cycle of smartphones. As a result, the volume of shipments did not reach JDI's expectations, although the Company tried to augment shipments through negotiations with customers by switching production to conventional products for which demand was comparatively stronger.

The Mobile Device Category, the main business area of JDI, is highly seasonal, and the third quarter corresponds to a period of peak demand for mobile device displays. Accordingly, net sales in the Mobile Device Category increased compared with the previous quarter, whereas net sales in the Automotive Category and the Non-Mobile Category decreased.

As a result, net sales for the third quarter came to ¥251,058 million, up 30.9% YoY, or 126.2% QoQ, and operating income was ¥3,849 million, compared to an operating loss of ¥12,090 million a year earlier and an operating loss of ¥4,668 million in the previous quarter. An ordinary loss of ¥698 million was also recorded, compared with an ordinary loss of ¥18,357 million a year earlier and an ordinary loss of ¥6,315 million in the previous quarter. A net loss attributable to owners of the parent was ¥1,338 million, compared with a net loss attributable to owners of the parent of ¥32,577 million a year earlier and a net loss attributable to owners of the parent of ¥7,751 million in the previous quarter.

(2) Overview of Financial Position

(i) Assets, liabilities and net assets

Assets

At the end of the third quarter of the current fiscal year, current assets were ¥345,906 million, an increase of ¥75,126 million from the end of the previous fiscal year. This was mainly due to increases of ¥36,533 million in accounts receivable-trade, ¥37,854 million in accounts receivable-other, and ¥11,134 million in merchandise and finished goods, and a decrease of ¥26,513 million in cash and deposits. Non-current assets were ¥334,048 million, down ¥9,816 million from the end of the previous fiscal year. This was mainly due to an increase of ¥9,111 million in investments and other assets, a decrease of ¥17,199 million in property, plant and equipment, and a decrease of ¥1,728 million in intangible assets.

As a result, total assets at the end of the third quarter of the current fiscal year were ¥679,954 million, an increase of ¥65,309 million from the end of the previous fiscal year.

Liabilities

Current liabilities at the end of the third quarter of the current fiscal year amounted to ¥487,080 million, an increase of ¥62,980 million from the end of the previous fiscal year. This was mainly due to increases of ¥83,747 million in accounts payable-trade, and ¥31,761 million in short-term loans payable, and decreases of ¥19,032 million in advances received, and ¥21,963 million in other. Non-current liabilities were ¥87,727 million, down ¥20,770 million from the end of the previous fiscal year. This was mainly due to a decrease of ¥20,000 million in bonds with share acquisition rights.

As a result, total liabilities at the end of the third quarter of the current fiscal year were ¥574,808 million, an increase of ¥42,209 million from the end of the previous fiscal year.

Net assets

Total net assets at the end of the third quarter under review were ¥105,146 million, an increase of ¥23,100 million from the end of the previous fiscal year. This was mainly due to an increase of ¥17,499 million in capital stock and capital surplus due to a capital increase through a third-party allotment.

As a result, the equity ratio at the end of the third quarter of the current fiscal year was 15.1% (13.1% at the end of the previous fiscal year).

(3) Note Concerning the Forecast of Consolidated Financial Results

The Mobile Device Category, the main business area of JDI, is highly seasonal and net sales are typically highest in the third quarter (October to December) of each fiscal year. In addition, an expansion of FULL

ACTIVE™ shipments in the second half of FY 2018 was expected. Thus, JDI's forecast projected substantial increases in net sales and income in the second half of the fiscal year. Unfortunately, the smartphone market as a whole was sluggish likely due to such factors as the economic slowdown in China and the longer life cycle of smartphones. Consequently, the JDI group experienced a greater-than-expected impact on demand for its displays. Although JDI managed to achieve a certain recovery in the volume of shipments through negotiations with customers, it was unable to compensate for a decline in demand for FULL ACTIVE™. Accordingly, the full fiscal year earnings forecast JDI announced on November 12, 2018, which estimated net sales increasing 5-15% over the previous fiscal year and an operating profit margin of 1-2%, has been revised to now estimate net sales decreasing approximately 10% compared to the last fiscal year and an operating loss of over ¥20 billion. Based on this revision, JDI has also determined that it will be difficult to achieve its FY 2018 target for net income attributable to owners of the parent.

In light of changes in the market environment and intensifying competition in the smartphone display market, which played a role in revising the earnings forecast, JDI recognizes the need for additional measures to improve profitability and is considering further structural reforms.

In addition, JDI is continuing negotiations with several parties to strengthen its market competitiveness and financial base, with the aim of reaching an alliance agreement in the near future. JDI has been promoting these negotiations in cooperation with INCJ, Ltd., our largest shareholder, which has stated that it will continue to provide support, including continuous holding of shares and bonds of JDI and loans receivable to the Company, even after the conclusion of alliances with external parties.

[Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2019]

	FY 2017 Results	Previous forecast (Nov. 12)	Revised forecast (Feb. 14)
Net sales	¥717.5 billion	5% to 15% YoY increase	Down approx.10% YoY
Operating income (loss)	¥(61.7) billion	Operating income margin 1to 2%	Over ¥(20) billion

JDI recognizes that returning profits to shareholders is an important management issue. Regarding the payment of a year-end dividend of the current fiscal year, JDI examined the possibility of such a payment against a comprehensive consideration of the level of company business performance and other factors. Regrettably, it has decided not to pay a dividend because the JDI's current financial results forecast is now lower than initially expected.

2. Material Events Related to Going Concern Assumptions

JDI recorded a significant net loss attributable to owners of the parent for FY 2017, and a net loss attributable to owners of the parent for the first nine month in FY 2018. As a result, there are still significant doubts about the Company's ability to continue as a going concern.

In order to resolve this situation, JDI implemented the structural reforms announced on August 9, 2017, in order to transform its earnings structure. In addition, the company is establishing OLED mass-production technologies and accelerating the shift of management resources to growth areas in order to stabilize its business base. It is also considering implementing further structural reforms. In regard to cash flows, JDI has been working to improve its cash position by implementing financial measures, such as the implementation of a capital increase through third party allotments and the renewal of commitment line agreements. In addition, it is seeking to strengthen its financial base by continuing negotiations, together with INCJ, Ltd., its largest shareholder, with several parties to reach agreement on a tie-up in the near future.

As a result, we have determined that there are no significant uncertainties related to going concern assumptions.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of Yen)

	March 31, 2018	December 31, 2018
Assets		
Current assets:		
Cash and deposits	80,866	54,352
Accounts receivable - trade	82,863	119,396
Accounts receivable - other	42,766	80,621
Merchandise and finished goods	17,427	28,562
Work in process	27,381	32,451
Raw materials and supplies	13,358	19,348
Other	6,283	11,336
Allowance for doubtful accounts	(167)	(162)
Total current assets	270,779	345,906
Non-current assets:		
Property, plant and equipment:		
Buildings and structures, net	132,498	116,233
Machinery, equipment and vehicles, net	111,212	131,184
Land	14,238	12,832
Leased assets, net	7,645	0
Construction in progress	28,940	18,359
Other, net	7,265	5,990
Total property, plant and equipment	301,801	284,601
Intangible assets:		
Goodwill	13,832	12,336
Other	5,148	4,916
Total intangible assets	18,981	17,253
Investments and other assets:		
Other	26,560	35,817
Allowance for doubtful accounts	(3,478)	(3,623)
Total investments and other assets	23,081	32,193
Total non-current assets	343,865	334,048
Total assets	614,644	679,954

(1) Consolidated Balance Sheet

(Millions of Yen)

	March 31, 2018	December 31, 2018
Liabilities		
Current liabilities:		
Accounts payable - trade	117,830	201,578
Electronically recorded obligations - operating	—	3,193
Short-term loans payable	99,082	130,843
Lease obligations	13,980	0
Income taxes payable	943	2,347
Provision for bonuses	4,596	2,446
Advances received	128,288	109,256
Other	59,378	37,415
Total current liabilities	424,099	487,080
Non-current liabilities:		
Bonds with share acquisition rights	45,000	25,000
Long-term loans payable	30,000	30,000
Lease obligations	0	—
Net defined benefit liability	24,063	20,981
Other	9,435	11,746
Total non-current liabilities	108,498	87,727
Total liabilities	532,598	574,808
Net assets		
Shareholders' equity:		
Capital stock	96,863	114,362
Capital surplus	213,648	231,148
Retained earnings	(233,281)	(244,142)
Treasury shares	—	(0)
Total shareholders' equity	77,229	101,368
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	—	(1)
Foreign currency translation adjustment	10,838	8,468
Remeasurements of defined benefit plans	(7,731)	(6,882)
Total accumulated other comprehensive income	3,106	1,584
Share acquisition rights	47	50
Non-controlling interests	1,662	2,143
Total net assets	82,046	105,146
Total liabilities and net assets	614,644	679,954

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

Consolidated Statement of Income

(Millions of Yen)

	April 1, 2017 - December 31, 2017	April 1, 2018 - December 31, 2018
Net sales	565,588	465,331
Cost of sales	560,280	441,407
Gross profit	5,307	23,924
Selling, general and administrative expenses	44,205	34,550
Operating income (loss)	(38,897)	(10,626)
Non-operating income:		
Interest income	84	100
Foreign exchange gains	53	2,487
Rent income	406	330
Fiduciary obligation fee	1,298	901
Subsidy income	73	577
Other	581	589
Total non-operating income	2,498	4,986
Non-operating expenses:		
Interest expenses	1,935	1,933
Share of loss of entities accounted for using equity method	10,032	6,728
Depreciation	6,611	461
Other	3,558	4,964
Total non-operating expenses	22,137	14,087
Ordinary income (loss)	(58,536)	(19,727)
Extraordinary income:		
Gain on change in equity	—	11,943
Total extraordinary income	—	11,943
Extraordinary losses:		
Business structure improvement expenses	31,192	—
Provision of allowance for doubtful accounts	1,467	—
Total extraordinary losses	32,659	—
Income (loss) before income taxes	(91,196)	(7,784)
Income taxes	9,428	2,596
Net income (loss)	(100,624)	(10,380)
Net income (loss) attributable to non-controlling interests	(13)	480
Net income (loss) attributable to owners of the parent	(100,611)	(10,861)

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

Consolidated Statement of Comprehensive Income

(Millions of Yen)

	April 1, 2017 - December 31, 2017	April 1, 2018 - December 31, 2018
Net income (loss)	(100,624)	(10,380)
Other comprehensive income:		
Valuation difference on available-for-sale securities	―	(1)
Deferred gains or losses on hedges	10	―
Foreign currency translation adjustment	2,568	(2,369)
Remeasurements of defined benefit plans, net of tax	818	849
Total other comprehensive income	3,397	(1,522)
Comprehensive income	(97,227)	(11,902)
(Breakdown)		
Comprehensive income attributable to owners of the parent	(97,244)	(12,383)
Comprehensive income attributable to non-controlling interests	17	480

(3) Notes pertaining to the Consolidated Financial Statements

a) Notes related to going concern assumptions

Not applicable.

b) Notes related to significant changes in shareholders' equity

As of April 25, 2018, JDI received the payments for the issuance of new shares through third-party allotment from Nichia Corporation and overseas financial institutional investors. As a result, capital stock increased by ¥17,499 million and legal capital surplus increased by ¥17,499 million in the first nine months of FY 2018, and accordingly capital stock was ¥114,362 million and capital surplus was ¥231,148 million at the end of the third quarter of FY 2018.

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

(a) Calculation of tax expenses

With respect to tax cost, an effective tax rate was reasonably estimated after applying tax effect accounting to income before income taxes for the fiscal year including the three-month period ended December 31, 2018, and tax cost was calculated by multiplying quarterly income before income taxes by the effective tax rate.

d) Additional Information

JDI applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 on February 16, 2018), etc., at the beginning of the first quarter of FY 2018. Accordingly, deferred tax assets are now presented in investments and other assets, and deferred tax liabilities are presented in non-current liabilities.

This accounting standard has been applied retrospectively for presentation of the consolidated balance sheets of the previous fiscal year.