

February 8, 2017

Japan Display Inc.

Consolidated Financial Results for the Nine Months of Fiscal Year 2016 (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: <http://www.j-display.com/english>
Representative: Shuji Aruga, President and Chief Operating Officer
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Filing of 3Q-FY2016 quarterly securities report: February 8, 2017
Commencement of dividend payments: -
Supplementary materials for the 3Q-FY2016 earnings results: Available
Briefing for 3Q-FY2016 results: February 8, 2017

(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, 2016

(1) Results of operations	(Millions of yen, except per share amounts)			
	9 mo. ended Dec. 31, 2016	YoY (%)	9 mo. ended Dec. 31, 2015	YoY (%)
Net sales	644,191	(20.8)	812,840	51.4
Operating income (loss)	10,475	(56.2)	23,908	-
Ordinary income (loss)	(9,050)	-	9,886	-
Profit (loss) attributable to owners of the parent	(9,402)	-	4,411	-
Net income (loss) per share				
-Basic	(15.63)		7.34	
-Diluted	-		-	
(Reference) Comprehensive income (loss)	(9,656)	-	2,202	2.1

(2) Financial position	(Millions of yen, except per share amounts)	
	Dec. 31, 2016	Mar. 31, 2016
Total assets	985,331	813,861
Net assets	354,247	365,249
Shareholders' equity ratio (%)	35.7	44.6
(Reference) Shareholders' equity	351,773	363,148

2. Dividends

	Jun. 30	Sep. 30	Dec. 31	FY-end	Total
Year ended Mar. 31, 2016	-	0.00	-	0.00	0.00
Year ending Mar. 31, 2017	-	0.00	-		
Year ending Mar. 31, 2017 (forecast)				-	-

Notes: 1. Changes from the most recently announced dividend forecast: None
2. Under JDI's articles of incorporation September 30 and the final day of the fiscal year are stipulated as the dates of record for dividends. However, at present the amount of the fiscal year-end dividend is not yet determined.

3. Financial forecast

	(Millions of yen)	
	12 mo. ending Mar. 31, 2017	YoY Chg (%)
Net sales	874,191	(11.6)
Operating income	22,975	37.5

Notes: 1. Changes from the most recently announced earnings forecast: Yes
 2. Due to the present difficulty in making reasonably accurate annual forecasts given volatility in demand JDI is only presenting consolidated forecasts for "net sales" and "operating income" in our FY 2016 consolidated business forecast.

Notes:

(1) Changes to scope of consolidation: None

(2) Adoption of special accounting practices for quarterly consolidated financial statements: Yes
For details please see "(2) Application of special accounting methods to the preparation of quarterly consolidated financial statements" in "2. Summary information (notes)" 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
For details please see "(3) Changes in accounting policies, changes in accounting estimates, retrospective restatements" in "2. Summary information (notes)" included among the attachments.

(4) Number of shares outstanding (common shares)

	Dec. 31, 2016	Mar. 31, 2016
Number of shares outstanding (incl. treasury shares).....	601,411,900	601,411,900
Number of treasury shares	-	-
	9 mo. ended Dec. 31, 2016	9 mo. ended Dec. 31, 2015
Average number of shares outstanding	601,411,900	601,406,114

Note: The treasury stock which is deducted in the calculation of average number of shares outstanding during the period includes the number of JDI shares held by the Trust. (JDI shares held by the Trust in the 9 months ended December 31, 2015: 2,556 shares).

Disclosure related to implementation of quarterly review procedures

This quarterly earnings report is exempt from the consolidated financial statements review procedures set forth in Japan's Financial Instruments and Exchange Law. At the time of disclosure of this earnings report, consolidated financial statements review procedures pursuant to the Financial Instruments and Exchange Law had been completed.

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 Nine Months of FY 2016 (April 1, 2016 to December 31, 2016)

(Million yen)

	9 months ended Dec. 31, 2015	9 months ended Dec. 31, 2016	YoY	
			Change	(%)
Mobile Device Category	697,611	530,975	(166,636)	(23.9)
Automotive & Non-Mobile Device Category ¹	115,228	113,216	(2,012)	(1.7)
Net Sales	812,840	644,191	(168,649)	(20.8)
Gross Profit	68,636	48,156	(20,480)	(29.8)
Operating Income	23,908	10,475	(13,433)	(56.2)
Ordinary Income	9,886	(9,050)	(18,936)	-
Quarterly Net Income	4,411	(9,402)	(13,814)	-
EBITDA	83,811	69,117	(14,694)	(17.5)

1. EBITDA = operating income + depreciation (operating costs) + amortization of goodwill

2. As of the first quarter of FY 2016 the "Automotive Electronics, C&I and Other Category" was renamed the "Automotive & Non-Mobile Device Category."

In nine months of FY 2016 the small-medium display market saw continued growth in display sales, especially in regard to smartphones. In the largest market for smartphones, China, the trend in favor of smartphone displays with higher resolutions continued. Robust growth was seen for products equipped with Full-HD (1080 x 1920 pixels) and larger displays, and demand was strong for JDI's industry-leading high-resolution display panels.

In JDI's mainstay Mobile Device Category the decline in shipment volume in the cumulative six-months and the stronger yen caused sales revenues in this period to fall YoY. However, third-quarter sales saw a substantial sequential increase. In the Automotive and Non-Mobile Category consumer electronics display sales declined but automotive display sales rose, leaving total nine-month sales in this category flat YoY.

Below is an overview of JDI's sales performance in each of the company's application categories for nine months of FY 2016.

Mobile Device Category

The Mobile Device Category includes displays for smartphones, tablets and mobile phone devices. Nine-month sales in this category were 530,975 million yen (down 23.9% YoY), accounting for 82.4% of total sales.

Nine-month cumulative sales in each of the regions of the US/Europe, China and elsewhere declined YoY. Sales to the US/Europe saw improvement QoQ but were lower than the robust nine-month sales of a year earlier. Sales to China featured a noticeable recovery in demand from the third quarter but severity in the competitive environment in the first six months was one of the factors behind lower YoY cumulative sales. In other regions the absence of a major order in the cumulative period under review compared with a year earlier contributed to a drop in sales. A stronger yen against the dollar compared to a year earlier throughout the nine months was also a factor in overall lower YoY sales.

¹ As of FY 2016 the heretofore "Automotive Electronics, C&I and Other category" has been renamed the "Automotive & Non-Mobile Device category".

Automotive and Non-Mobile Category

The Automotive and Non-Mobile Category includes displays for automotive applications, consumer electronics (digital cameras, game consoles, etc.) and industrial devices (such as medical equipment monitors) as well as income from patents. Nine-month sales in this category were 113,216 million yen (down 1.7% YoY), accounting for 17.6% of total sales.

At the end of the nine months automotive display sales were up in the US/Europe on the back of strong automobile sales. However, a fall in sales of consumer electronic display sales resulted in lower total sales in this category on a YoY basis.

As a result of these category sales, JDI's net sales for nine months of FY 2016 were 644,191 million yen (down 20.8% YoY versus the nine months of a year earlier). Operating income turned into the black to finish at 10,475 million yen (down 56.2% YoY) as a rise in sales in the third quarter and other factors overcame a loss in the first two quarters. An ordinary loss of 9,050 million yen (compared with ordinary income of 9,886 million yen in the year-earlier nine months) was recorded after accounting for such non-operating factors as a foreign exchange loss of 7,654 million yen. A nine-month net loss attributable to owners of the parent in the amount of 9,402 million yen (versus 4,411 million yen net income attributable to owners of the parent a year earlier) was also booked after taking into account tax expenses and a profit attributable to non-controlling interests.

In the third quarter the new Hakusan Plant began mass production of low-temperature poly-silicon (LTPS) displays using G6 (1500mm x 1850mm) glass substrate. A manufacturing line in the Plant has a monthly capacity of 25,000 sheets. Since this line began operating JDI's overall liquid crystal display panel production capacity has increased by about 20%.

Also in the third quarter JDI decided to procure funds for the purpose of assuring steady, long-term business growth and enhancing shareholder value. The company decided to make an offering of 45 billion yen in unsecured subordinated convertible bonds with stock acquisition rights to be issued through third-party allotment to the Innovation Network Corporation of Japan (INCJ) and received 30 billion yen through subordinated loan from INCJ, for a total of 75 billion yen. The funding from the unsecured subordinated convertible bonds will be used for research and development of printing OLED while the subordinated loan will be directed to evaporation OLED R&D.

Consolidated Results for the Third Quarter of FY 2016 (October 1, 2016 to December 31, 2016)

Year on year comparison

(Million yen)

		3Q-FY 2015	3Q-FY 2016	YoY	
				Change	(%)
	Mobile Device Category	270,309	232,162	(38,147)	(14.1)
	Automotive & Non-Mobile Device Category	34,666	41,047	6,381	18.4
	Net Sales	304,975	273,208	(31,767)	(10.4)
	Gross Profit	26,127	26,660	533	2.0
	Operating Income	13,324	12,651	(673)	(5.1)
	Ordinary Income	8,221	11,507	3,286	40.0
	Quarterly Net Income	4,734	7,298	2,563	54.1
	EBITDA	32,965	33,820	855	2.6

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

Quarter on quarter comparison

(Million yen)

	2Q-FY 2016	3Q-FY 2016	QoQ	
			Change	(%)
Mobile Device Category	158,569	232,162	73,593	46.4
Automotive & Non-Mobile Device Category	38,072	41,047	2,975	7.8
Net Sales	196,641	273,208	76,567	38.9
Gross Profit	13,093	26,660	13,567	103.6
Operating Income	1,235	12,651	11,416	924.4
Ordinary Income	(6,332)	11,507	17,839	-
Quarterly Net Income	(4,929)	7,298	12,227	-
EBITDA	20,321	33,820	13,499	66.4

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

In the third quarter of FY 2016 (October 1, 2016 to December 31, 2016) the shipment volume was favorable on a YoY basis in the China market. However, sales declined YoY partly because of the impact of the stronger yen. Relative to the second quarter, sales greatly improved to 273,208 million yen (down 10.4% YoY but up 38.9% QoQ). While on a YoY basis sales fell more than 10% because of the strong yen and other factors, benefits obtained from a series of management and business structural reforms enabled operating income of 12,651 million yen (down 5.1% YoY, up 924.4% QoQ). Ordinary income reached 11,507 million yen (up 40.0% YoY whereas 2Q-FY 2016 saw an ordinary loss of 6,332 million yen) with help from a foreign exchange gain in the quarter as compared with a foreign exchange loss a year earlier. Net income attributable to owners of the parent was 7,298 million yen (up 54.1% YoY whereas 2Q-FY 2016 recorded a net loss attributable to owners of the parent of 4,929 million yen).

Below is an overview of JDI's sales performance in each of the company's application categories in the third quarter of FY 2016.

Mobile Device Category

Third-quarter sales in this category were 232,162 million yen (up 46.4% QoQ), accounting for 85.0% of total sales. Seasonal factors led to a substantial QoQ increase in sales to the US/Europe while sales to China recovered owing to recaptured market share.

Automotive and Non-Mobile Category

Third-quarter sales in this category were 41,047 million yen (up 7.8% QoQ), accounting for 15.0% of total sales. In addition to strong sales of automotive displays sales of consumer electronics (digital cameras, game consoles, etc.) displays were higher QoQ.

(2) Financial Position

Assets

As of the end of the third quarter of FY 2016 (ended December 31, 2016) JDI had current assets of 454,233 million yen, an increase of 131,411 million yen versus the end of FY 2015 (ended March 31, 2016). The main factors were increases of 27,134 million yen in cash and cash equivalents, 49,160 million yen in accounts receivable, 54,920 million yen in other receivables, while merchandise and finished goods decreased by 12,897 million yen. Noncurrent assets were 531,097 million yen, an increase of 40,058 million yen versus the end of FY 2015, with the main factor being an increase of 25,714 million yen in tangible fixed assets.

As a result total assets at the end of the third quarter were 985,331 million yen, an increase of 171,469 million yen versus the end of FY 2015.

Liabilities

At the end of the third quarter of FY 2016 JDI had current liabilities of 553,441 million yen, an increase of 170,770 million yen versus the end of FY 2015. The main factors were increases of 135,851 million yen in accounts payable, 21,083 million yen in short-term borrowings and 52,497 million yen in advance receipts along with decreases of 13,931 million yen in lease obligations and 17,890 million yen in Other. Noncurrent liabilities were 77,642 million, an increase of 11,701 million yen versus the end of FY 2015, with the main factors being an increase of 29,861 million yen in long-term borrowings and a decrease of 14,554 million yen in lease obligations.

As a result total liabilities at the end of the third quarter were 631,083 million yen, an increase of 182,471 million yen versus the end of FY 2015.

Net assets

Total net assets at the end of the third quarter of FY 2016 were 354,247 million yen, a decrease of 11,002 million yen compared with the end of FY 2015. The main factors were a 9,402 million yen loss attributable to owners of the parent and a foreign currency translation adjustment decrease of 1,864 million yen.

As a result JDI had a shareholders' equity ratio of 35.7% at the end of the third quarter (versus 44.6% at the end of FY 2015).

(3) Note regarding consolidated financial and other forecasts

Consolidated financial forecast for the fourth quarter of FY 2016 (January 1, 2017 to March 31, 2017)

(Millions of yen)

	Net Sales	YoY change (%)	Operating Income	YoY change (%)
4Q-FY 2016 (Forecast)	230,000	30.5	12,500	-
4Q- FY 2015 (Actual)	176,275	(24.2)	(7,198)	-

Consolidated financial forecast for the FY 2016 full term (April 1, 2016 to March 31, 2017)

(Millions of yen)

	Net Sales	YoY change (%)	Operating Income	YoY change (%)
FY 2016 Full Term (Forecast)	874,191	(11.6)	22,975	37.5
FY 2015 Full Term (Actual)	989,115	28.6	16,710	224.7

JDI does business in the small-medium display industry, which is acknowledged to have a highly volatile business climate. Due to the difficulty of making reliable business forecasts for the full year JDI provides net sales and operating income forecasts on a quarterly basis. Moreover, because large differences that can exist between foreign currency denominated monetary assets and liabilities based on the prevailing foreign exchange rate at the end of a fiscal quarter preclude accurate foreign exchange gain/loss estimates, JDI does not provide financial forecasts below the line of operating income.

For the fourth quarter of FY 2016 while sales in US/Europe will be affected by seasonal factors acting to reduce demand, sales to China are expected to see further growth relative to the third quarter. In addition,

benefits derived from a series of recent management and structural reforms are expected to enable higher performance in the fourth quarter compared to a year ago, resulting in net sales of 230,000 million yen and operating income of 12,500 million yen.

On a FY 2016 full-year basis net sales of 874,191 million yen (down 11.6% YoY) and operating income of 22,975 million yen (up 37.5% YoY) are expected. The full year forecast is based on actual results from the first nine month of FY 2016 plus estimates for the fourth quarter.

The foreign exchange rate assumption applied to the above financial results forecast for the fourth quarter of FY 2016 is US\$1=110 yen.

2. Summary information (notes)

(1) Important changes in principal subsidiaries in the nine-month consolidated accounting period ended December 31, 2016

Not applicable.

(2) Application of special accounting methods to the preparation of quarterly consolidated financial statements

Calculation of tax costs

Quarterly income taxes are calculated by multiplying the quarterly income before income taxes by a reasonable estimate of the effective tax rate after application of tax effect accounting for the estimated income before income taxes in the consolidated fiscal year, including the third quarter.

(3) Changes in accounting policies, changes in accounting estimates, retrospective restatements

Not applicable.

(4) Additional information

Adoption of the Implementation Guidance on Recoverability of Deferred Tax Assets

The Company has adopted “Implementation Guidance on Recoverability of Deferred Tax Assets” (Guideline of Financial Accounting Standard of Japan, March 28, 2016) from the first quarter of this fiscal year.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

	(Millions of Yen)	
	As of March 31, 2016	As of December 31, 2016
<u>Assets</u>		
Current assets:		
Cash and deposits	55,077	82,211
Notes and accounts receivable	80,688	129,849
Other receivables	57,127	112,048
Merchandise and finished goods	54,176	41,278
Work in process	41,090	47,305
Raw materials and supplies	18,861	21,656
Deferred tax assets	7,251	12,150
Other	8,731	7,924
Allowance for doubtful accounts	(182)	(190)
Total current assets	322,822	454,233
Fixed assets:		
Tangible fixed assets		
Building and structures, net	78,560	145,485
Machinery, equipment and vehicles, net	90,455	187,102
Land	14,482	14,425
Lease assets, net	73,063	43,697
Construction in progress, net	167,642	58,872
Other, net	12,580	12,915
Total tangible fixed assets	436,784	462,499
Intangible fixed assets		
Goodwill	19,000	17,237
Other	10,664	9,279
Total intangible fixed assets	29,664	26,516
Investments and other assets		
Other	26,782	44,276
Allowance for doubtful accounts	(2,192)	(2,194)
Total investments and other assets	24,590	42,081
Total fixed assets	491,039	531,097
Total assets	813,861	985,331

(Millions of Yen)		
	As of March 31, 2016	As of December 31, 2016
<u>Liabilities</u>		
Current liabilities:		
Notes and accounts payable	138,053	273,904
Short-term borrowings	—	21,083
Current portion of long-term borrowings	8,543	2,129
Current portion of lease obligations	35,740	21,809
Income tax payable and others	1,255	2,820
Accrued bonuses	5,105	3,113
Advance receipts	131,913	184,411
Other	62,060	44,169
Total current liabilities	382,671	553,441
Long-term liabilities:		
Long-term borrowings	138	30,000
Lease obligations, excluding current portion	32,904	18,350
Net defined benefit liability	32,058	29,156
Other	838	135
Total long-term liabilities	65,940	77,642
Total liabilities	448,612	631,083
<u>Net assets</u>		
Shareholders' equity		
Common stock	96,863	96,863
Capital surplus	257,040	256,386
Retained earnings	3,379	(6,023)
Total shareholders' equity	357,283	347,226
Accumulated other comprehensive income		
Deferred gains or losses on hedges	—	156
Translation adjustments	13,126	11,261
Accumulated adjustments for retirement benefits	(7,260)	(6,870)
Total accumulated other comprehensive income	5,865	4,547
Subscription rights to shares	18	38
Non-controlling interests	2,082	2,434
Total net assets	365,249	354,247
Total liabilities & net assets	813,861	985,331

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

Consolidated Statement of Income

	(Millions of Yen)	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	812,840	644,191
Cost of sales	744,204	596,035
Gross profit	68,636	48,156
Selling, general and administrative expenses	44,727	37,680
Operating income	23,908	10,475
Non-operating income		
Interest income	87	45
Rent income	350	431
Operations consignment fee	552	776
Subsidy income	3,382	1,881
Other	589	2,349
Total non-operating income	4,963	5,484
Non-operating expenses		
Interest expense	1,810	1,909
Foreign exchange loss	10,665	7,654
Depreciation of inactive non-current assets	843	6,352
Other	5,666	9,094
Total non-operating expenses	18,985	25,010
Ordinary income (loss)	9,886	(9,050)
Extraordinary losses		
Early extra retirement payments	—	1,620
Impairment losses on non-current assets	1,101	—
Total extraordinary losses	1,101	1,620
Net income (loss) before taxes	8,785	(10,671)
Income taxes	3,990	(2,344)
Net income (loss)	4,794	(8,327)
Profit attributable to non-controlling interests	382	1,075
Profit (loss) attributable to owners of parent	4,411	(9,402)

Consolidated Statement of Comprehensive Income

(Millions of Yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net income (loss)	4,794	(8,327)
Other comprehensive income		
Deferred gains or losses on hedges	—	156
Foreign currency translation adjustments	(3,278)	(1,875)
Remeasurements of defined benefit plans	687	390
Total other comprehensive income	(2,591)	(1,328)
Comprehensive income	2,202	(9,656)
Comprehensive income attributable to owners of parent	1,846	(10,720)
Comprehensive income attributable to non-controlling interest	356	1,064

(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

Significant Subsequent Events

At the meeting of the board of directors held on December 21, 2016, the Company resolved to conduct an offering of Japan Display Inc. 1st series unsecured subordinated convertible bonds with stock acquisition rights to be issued through a third-party allotment to Innovation Network Corporation of Japan ("INCJ") and the payment of full amount was completed on January 11 2017. The details are described below.

Bonds with Stock Acquisition Rights

(1)	Face Value of Bonds	45,000,000,000 yen
(2)	Issue Price	100.00% of the face value of the Bonds
(3)	Aggregate Issue Price	45,000,000,000 yen
(4)	Coupon	Zero
(5)	Maturity Date	January 11, 2024
(6)	Redemption Price	100.00% of the face value of the Bonds
(7)	Issue Date	January 11, 2017
(8)	Conversion Price	430 yen
(9)	Exercise Period	From January 11, 2019 to December 27, 2023
(10)	Use of Funds	Research and development expenses for OLED displays using printing method
(11)	Others	In JDI's bankruptcy proceedings, the Bonds shall be subordinated to JDI's senior indebtedness.