

Notice Concerning Structural Reforms, Extraordinary Losses (Business Structure Improvement Expenses) and Reversal of Deferred Tax Assets

TOKYO, Japan, August 9, 2017 - Japan Display Inc. ("JDI") announced that its Board of Directors decided at a meeting held today to implement a series of structural reforms. A portion of the business structure improvement expenses associated with the structural reforms was posted to FY 2017 first-quarter (April 1, 2017 to June 30, 2017) consolidated financial results as an extraordinary loss.

JDI also announced a reversal of deferred tax assets in the first quarter.

1. Background to the implementation of structural reforms

JDI operates in the small-medium display industry, primarily the market for smartphone displays. Given the accelerated adoption of OLED displays for smartphones and the growing production capacity of China's display makers, JDI is facing an increasingly difficult competitive environment.

In this environment, JDI has surplus production capacity that represents a significant burden on the company's manufacturing fixed costs. Therefore, JDI has determined that it must overhaul its manufacturing system to bring it in line with a changing market and reduce the level of fixed costs. By implementing fundamental structural reforms JDI is working to rationalize company management and improve earnings.

2. Summary of structural reforms

JDI plans to reduce annual fixed cost by around 50 billion yen by implementing such measures as elimination and consolidation of production sites in Japan and overseas, write downs of some assets as well as reductions in the workforce. Below is an overview of the company's program of individual structural reforms.

(1) Shutdown of a Japan-based front-end manufacturing (LCD panel production) line

JDI has six manufacturing lines at four Japan-based sites that handle display front-end production. The company has decided to shut down one of these lines as shown below. Usage options for this line, including possible use by JOLED Inc., are under examination.

Shutdown of front-end manufacturing line

Nomi Plant (JDI's Ishikawa site) G5.5 line (LTPS technology)

Location: Nomi City, Ishikawa Prefecture

Beginning of shutdown: December 2017 (planned)

(2) Consolidation of overseas back-end manufacturing (display module assembly) subsidiaries

Among five overseas back-end manufacturing subsidiaries, some will be subject to either closure or consolidation. Details have yet to be finalized.

(3) Write downs of business assets and idle assets

Impairment losses on some manufacturing equipment for smartphone displays will be booked because a decline in the earning capacity of this equipment has eliminated the chance of an investment recovery thus resulting in impairment. In addition, impairment losses on inactive non-current assets that currently are not expected to be used again will also be booked.

(4) Integration of the OLED pilot line at Ishikawa Plant into the Mobara Plant

Because the G6 OLED pilot line at Mobara Plant recently began operation the G4.5 OLED pilot line at the Ishikawa Plant in Ishikawa site (in Kawakita-cho, Nomi-gun, Ishikawa Prefecture) will be discontinued and its functions integrated into the Mobara OLED line. This will enable more focused use of development resources.

(5) Inventory valuation

Inventory assets at JDI sites in Japan and overseas may be subject to capitalization and asset disposal losses under a medium-term business plan designed to improve the company's financial health.

(6) Workforce reductions

The workforce relocation associated with the above-described shutdown of a Japan-based front-end production line and the offering of voluntary early retirement will be implemented in Japan. The elimination and consolidation of manufacturing lines at overseas production subsidiaries will result in workforce reductions. Based on these measures JDI is expecting a group-wide total workforce reduction of approximately 3,700 employees.

Japan workforce reduction: 240 (employees accepting voluntary retirement)
Overseas workforce reduction: About 3,500 employees

Offering of voluntary early retirement in Japan

i.	Number of employees:	240
ii.	Individuals eligible for voluntary early retirement:	Employees 50 years of age or older as of the date of retirement
iii.	Early retirement application period:	November 6, 2017 to January 12, 2018
iv.	Retirement date:	January 31, 2018 to March 31, 2018
v.	Other:	Individuals taking early retirement will receive retirement packages in accordance with company policies and will also receive special retirement benefits. Further, those wishing early retirement will receive reemployment support.

(7) Reduced executive and auditor compensation, and reduced salaries for managers

In response to an unsatisfactory financial performance, executive compensation and manager-level salaries will be reduced as described below. Also, offers by full-time company auditors to voluntarily return audit-related remuneration have already been accepted.

i. Executive compensation and manager-level salaries

Applicable individuals	Period	Rate of reduced monthly compensation/salary
Chairman/Representative Director, President/Director	August 2017 to March 2018	20%
Executive Officers	Same as above	12-15%
Other managers	October 2017 to March 2018	5-10%

ii. Full-time company auditors

August 2017 to March 2018: A voluntary return of 5% of monthly remuneration

3. Posting of extraordinary losses and reversal of deferred tax assets

A portion of the costs related to "(3) Write downs of business assets and idle assets" contained under "2. Summary of structural reforms" was posted as a 2,652 million yen extraordinary loss (business structure improvement expense) in the first quarter of FY 2017. The loss has been reflected in the "Consolidated Financial Results for the Three Months of Fiscal Year 2017 (Japanese GAAP)" also being announced today.

4. Outlook (based on assumptions underlying financial results expectations)

After including the portion of the cost of structural reforms that was charged to the first quarter of FY 2017 (a business structure improvement expense of 2,652 million yen), the cost of JDI's total structural reform program is estimated to be around 170 billion yen. Within this amount, approximately 30 billion yen is expected to represent cash expenditures. Once the details of the structural reforms are properly assessed and confirmed, JDI intends to announce additional restructuring cost details as soon as possible.

Based on the structural reforms, fixed costs are expected to be reduced by approximately 50 billion yen annually from FY 2018 onward. Within this annual amount, annual cash expenditures are expected to be reduced by approximately 30 billion yen.

Furthermore, calculations of the above expected financial sums are based on information JDI has in hand. Actual sums may differ in the future pending further review.

In addition to optimizing production capacity and reducing fix costs through an aggressive program of restructuring, JDI plans to execute other important measures, such as applying greater selectivity and elimination strategies to business operations and rebuilding the company's organizational structure to achieve a leaner corporate structure. Further, JDI's earnings structure will undergo accelerated changes based on leveraging FULL ACTIVE™ to make a fast contribution to earnings, rapid commercialization of OLED and directing greater business resources to growth-oriented business areas. Also, the company is proceeding to secure new business opportunities. Overall, JDI intends to achieve positive net income from FY 2018 onward and positive free cash flow from FY 2019 onward.

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