

November 12, 2018

Japan Display Inc.

Consolidated Financial Results for the Six Months of Fiscal Year 2018 (Japanese GAAP)

[This is an English translation of an original Japanese-language document.]

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 Security code: 6740
 Listing: Tokyo Stock Exchange (First Section)
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Filing of 2Q-FY2018 quarterly securities report: November 13, 2018
 Commencement of dividend payments: -
 Supplementary materials for the 2Q-FY2018 earnings results: Available
 Briefing for 2Q-FY2018 results: November 12, 2018

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

1. Consolidated results of operations for the six months ended September 30, 2018

(1) Results of operations	(Millions of yen, except per share amounts)			
	6 mo. ended Sep. 30, 2018	YoY (%)	6 mo. ended Sep. 30, 2017	YoY (%)
Net sales	214,273	(42.7)	373,856	0.8
Operating income (loss).....	(14,475)	-	(26,806)	-
Ordinary income (loss).....	(19,029)	-	(40,178)	-
Net income (loss) attributable to owners of the parent	(9,523)	-	(68,033)	-
Net income (loss) per share				
-Basic.....	(11.70)		(113.12)	
-Diluted				
(Reference) Comprehensive income (loss).....	(10,204)		(64,832)	

(2) Financial position	(Millions of yen, except per share amounts)	
	Sep. 30, 2018	Mar. 31, 2018
Total assets	648,367	614,644
Net assets	106,841	82,046
Shareholders' equity ratio (%).....	16.2	13.1
(Reference) Shareholders' equity.....	104,728	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).....			-	-	-

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

3. Financial forecast

In regard to the financial results forecast for the FY 2018 full term, JDI has amended its earnings forecast published on May 15, 2018 after taking into account volatile customer demand. The new forecast is consolidated net sales growth of 5-15% and an operating margin of 1-2%. More 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 "(4) 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)

	Sep. 30, 2018	Mar. 31, 2018
Number of shares outstanding (incl. treasury shares).....	846,165,800	601,411,900
Number of treasury shares	-	-
	6 mo. ended Sep. 30, 2018	6 mo. ended Sep. 30, 2017
Average number of shares outstanding	814,066,927	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 Six Months of FY 2018 (April 1 – September 30, 2018)

(Millions of yen)

	6 mo. ended Sept. 30, 2017	6 mo. Ended Sept. 30, 2018	YoY	
			Change	(%)
Mobile Device Category	300,418	129,259	(171,159)	(57.0)
Automotive Category*1	51,058	56,630	5,572	10.9
Non-Mobile Device Category*1	22,378	28,383	6,004	26.8
Net sales	373,856	214,273	(159,583)	(42.7)
Gross profit	3,094	8,561	5,467	176.7
Operating income (loss)	(26,806)	(14,475)	12,331	-
Ordinary income (loss)	(40,178)	(19,029)	21,149	-
Net income (loss) attributable to owners of the parent	(68,033)	(9,523)	58,510	-
EBITDA*2	16,219	8,252	(7,966)	(49.1)

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 six months of FY 2018 the competitive environment in the small-medium display industry continued to be severe due to expanded production capacity among overseas display makers, greater adoption of OLED displays by customers and stagnant demand for displays caused by sluggish growth in the smartphone market. On the other hand, market-launches of smartphones using LCDs with narrow bezels were announced and JDI expects the shipment of its slim bezel FULL ACTIVE™ will increase in the second half of the fiscal year.

JDI's six-month cumulative net sales declined YoY as sales fell in the mainstay Mobile Device Category even though net sales were higher in the Automotive Category and the Non-Mobile Device Category.

Below is an overview of JDI's performance in each of the Company's application categories in the first six months of FY 2018.

Mobile Device Category

The Mobile Device Category includes displays for smartphones, tablets and other devices. Six-month cumulative net sales in this category were 129,259 million yen (down 57.0% YoY), accounting for 60.3% of total net sales.

In the six months net sales to the US/Europe regions declined YoY due to such reasons as inventory adjustments among major customers. Net sales to China and other Asian countries in the same period fell YoY due in part to greater market competition.

Automotive Category

The Automotive Category includes displays for automotive applications. Six-month cumulative net sales in this category were 56,630 million yen (up 10.9% YoY) and accounted for 26.4% of total net sales.

Automotive display net sales were higher YoY because of the increasing number of displays installed in vehicles and larger screen sizes.

Non-Mobile Category

The 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. Six-month cumulative net sales in this category were 28,383 million yen (up 26.8% YoY) and accounted for 13.3% of total net sales.

Net sales were lower for digital still camera and game device displays but net sales rose for wearable device, high-end PC and other displays. As a result six-month net sales in this category saw a YoY increase.

Based on the above JDI's six-month cumulative net sales were 214,273 million yen, down 42.7% YoY. An operating loss continued under the sluggish sales but the size of the loss of 14,475 million yen was smaller

compared with an operating loss of 26,806 million yen a year earlier due to the impact of structural reforms implemented in FY 2017 and other factors. An ordinary loss of 19,029 million yen (compared with an ordinary loss of 40,178 million yen a year earlier) was due partly to a foreign exchange gain of 3,815 million yen and share of loss of entities accounted for using equity method in the amount of 4,941 million yen. A net loss attributable to owners of the parent of 9,523 million yen (compared with a net loss attributable to owners of the parent of 68,033 million yen a year earlier) was recorded after accounting for a gain on change in equity of 11,943 million yen in extraordinary income in the first quarter that resulted from a capital increase through third-party allotment of new shares at our equity-method affiliate JOLED.

Consolidated Results for the Second Quarter of FY 2018 (July 1, 2018 to September 30, 2018)

Year on year comparison			(Millions of yen)	
	2Q-FY 2017	2Q-FY 2018	YoY	
			Change	(%)
Mobile Device Category	148,026	66,682	(81,344)	(55.0)
Automotive Category*1	26,546	27,694	1,147	4.3
Non-Mobile Device Category*1	10,694	16,614	5,919	55.4
Net sales	185,268	110,991	(74,276)	(40.1)
Gross profit	2,054	7,365	5,311	258.6
Operating income (loss)	(12,364)	(4,668)	7,696	-
Ordinary income (loss)	(19,565)	(6,315)	13,249	-
Net income (loss) attributable to owners of the parent	(36,577)	(7,751)	28,825	-
EBITDA*2	8,101	6,221	(1,879)	(23.2)

Quarter on quarter comparison			(Millions of yen)	
	1Q-FY 2018	2Q-FY 2018	QoQ	
			Change	(%)
Mobile Device Category	62,576	66,682	4,106	6.6
Automotive Category*1	28,935	27,694	(1,240)	(4.3)
Non-Mobile Device Category*1	11,769	16,614	4,844	41.2
Net sales	103,281	110,991	7,710	7.5
Gross profit	1,195	7,365	6,169	516.0
Operating income (loss)	(9,806)	(4,668)	5,138	-
Ordinary income (loss)	(12,713)	(6,315)	6,397	-
Net income (loss) attributable to owners of the parent	(1,771)	(7,751)	(5,979)	-
EBITDA*2	2,031	6,221	4,189	206.2

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 second quarter of FY 2018 the business environment surrounding JDI continued to be difficult due to sluggish growth in the global smartphone market and severe competition in the display industry. In this environment JDI at the end of the second quarter started full-scale shipments of slim bezel LCD FULL ACTIVE™. Although the ramp up of FULL ACTIVE™ production saw some delay in the beginning due to shortages in some components procured from outside JDI, the Company expects a large increase in product sales in the second half of FY 2018. Automotive Category net sales fell slightly QoQ but Non-Mobile Device Category net sales rose mainly due to strong sales for digital still camera and wearable device displays.

JDI's FY 2018 second-quarter net sales were 110,991 million yen (down 40.1% YoY and up 7.5% QoQ). Also recorded were an operating loss of 4,668 million yen (compared with an operating loss of 12,364 million yen a year earlier and an operating loss of 9,806 million yen in the first quarter) and an ordinary loss of 6,315 million yen (compared with an ordinary loss of 19,565 million yen a year earlier and an ordinary loss of 12,713 million yen in the first quarter). The second quarter ended with a net loss attributable to owners of the parent of

7,751 million yen (compared with a net loss attributable to owners of the parent of 36,577 million yen a year earlier and a net loss attributable to owners of the parent of 1,771 million yen in the first quarter).

(2) Overview of Financial Position

(i) Assets, liabilities and net assets

Assets

At the end of the second quarter of FY 2018 JDI had current assets of 308,514 million yen, an increase of 37,734 million yen versus the end of FY 2017. The main factors were increases of 24,492 million yen in accounts receivable - other, 11,433 million yen in merchandise and finished goods and 13,990 million yen in other and a decrease of 18,632 million yen in cash and deposits. Non-current assets were 339,853 million yen, a decrease of 4,011 million yen versus the end of FY 2017, with the main factors having been an increase of 11,216 million yen in investments and other assets and decreases of 14,159 million yen in property, plant and equipment and 1,069 million yen in intangible assets.

As a result total assets at the end of the second quarter were 648,367 million yen, an increase of 33,722 million yen versus the end of FY 2017.

Liabilities

At the end of the second quarter of FY 2018 JDI had current liabilities of 455,913 million yen, an increase of 31,813 million yen relative to the end of FY 2017. The main factors were increases of 28,163 million yen in accounts payable - trade and 29,032 million yen in short-term loans payable and decreases of 13,980 million yen in lease obligations, 13,047 million yen in advances received and 2,805 million yen in other current liabilities. Non-current liabilities were 85,612 million yen, a decrease of 22,886 million yen versus the end of FY 2017.

As a result total liabilities at the end of the second quarter were 541,525 million yen, an increase of 8,926 million yen relative to the end of FY 2017.

Net assets

Total net assets at the end of the second quarter of FY 2018 were 106,841 million yen, an increase of 24,795 million yen versus the end of FY 2017. The main factor was an increase of 17,499 million yen each in capital stock and the capital surplus as a result of a third-party allotment of new shares.

As a result JDI had a shareholders' equity ratio of 16.2% at the end of the second quarter (13.1% at the end of FY 2017).

(ii) Overview of Cash Flows

At the end of the second quarter of FY 2018 JDI had cash and cash equivalents of 62,233 million yen, a decrease of 18,632 million yen relative to the end of FY 2017. Cash flows and contributing factors in the period under review are presented below.

Cash flows from operating activities

Net cash used in operating activities in the first six months of FY 2018 was 31,015 million yen (as compared to net cash of 4,848 million yen used in the same period a year earlier). Major plus factors include 22,153 million yen in depreciation and increases of 34,803 million yen in notes and accounts payable - trade and 12,845 million yen in payable - other while minus factors include increases of 19,571 million yen in inventories, 27,681 million yen in accounts receivable - other and 16,616 million yen in advances paid and a decrease of 13,033 million yen in advances received.

Cash flows from investing activities

Net cash used in investing activities in the first six months of FY 2018 was 19,172 million yen (as compared to net cash of 30,035 million yen used in the same period a year earlier) and mainly consisted of 18,929 million yen received from the sale of property, plant and equipment and 29,302 million yen used to purchase property, plant and equipment.

Cash flows from financing activities

Net cash provided by financing activities in the first six months of FY 2018 was 30,034 million yen (as compared to net cash of 18,472 million yen provided in the same period a year earlier). The major factors were an increase of 29,014 million yen in short-term loans payable, 34,999 million yen received from the issuance of common shares, 13,980 million yen used for repayment of lease obligations and a 20,000 million yen used for redemption of JDI's corporate bond.

(3) Note Concerning the Forecast of Consolidated Financial Results

The business environment surrounding JDI's primary business of small-medium displays experiences significant volatility that makes accurate financial forecast calculations difficult. Accordingly, JDI is providing partial guidance for fiscal year 2018.

In regard to the financial results forecast for the FY 2018 full term, JDI has amended its earnings forecast published on May 15, 2018 due to volatile customer demand. The earlier forecast estimated consolidated net sales growth of 10-20% YoY and an operating margin of 2-3% but the Company now estimates consolidated net sales growth of 5-15% and an operating margin of 1-2%.

Also, despite volatile customer demand JDI aims to achieve positive net income attributable to owners of the parent for the FY 2018 full term.

2. Material Events Related to Going Concern Assumptions

JDI recorded a material net loss attributable to owners of the parent in FY 2017, and still had a net loss attributable to owners of the parent in the first half of FY 2018, which raises substantial doubt about the Company's ability to continue as a going concern. To dispel this doubt, JDI has been making transformations to improve its earnings structure by implementing fundamental structural reforms (the reforms were announced on August 9, 2017).

As a result, the size of the loss was smaller in the first half of FY 2018 compared to the fourth quarter of FY 2017, and further recovery in business results is expected from the second half of FY 2018. Furthermore, JDI is accelerating the establishment of mass manufacturing technology of OLED and the shift of management resources to growth business areas, in order to stabilize the Company's base of business. Also, JDI has taken financial measures that will assure stable funds procurement to improve cash flows, such as conducting a third-party allotment of new shares and renewing contracts for commitment lines. Based upon these observations and measures, JDI has concluded 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	September 30, 2018
<u>Assets</u>		
Current assets:		
Cash and deposits	80,866	62,233
Accounts receivable - trade	82,863	80,859
Accounts receivable - other	42,766	67,258
Merchandise and finished goods	17,427	28,861
Work in process	27,381	31,776
Raw materials and supplies	13,358	17,418
Other	6,283	20,274
Allowance for doubtful accounts	(167)	(167)
Total current assets	270,779	308,514
Non-current assets:		
Property, plant and equipment:		
Buildings and structures, net	132,498	117,778
Machinery, equipment and vehicles, net	111,212	126,893
Land	14,238	12,842
Leased assets, net	7,645	0
Construction in progress	28,940	23,594
Other, net	7,265	6,532
Total property, plant and equipment	301,801	287,642
Intangible assets:		
Goodwill	13,832	12,829
Other	5,148	5,082
Total intangible assets	18,981	17,912
Investments and other assets:		
Other	26,560	38,009
Allowance for doubtful accounts	(3,478)	(3,710)
Total investments and other assets	23,081	34,298
Total non-current assets	343,865	339,853
Total assets	614,644	648,367

(1) Consolidated Balance Sheet

	(Millions of Yen)	
	March 31, 2018	September 30, 2018
<u>Liabilities</u>		
Current liabilities:		
Accounts payable - trade	117,830	145,993
Electronically recorded obligations - operating	—	3,713
Short-term loans payable	99,082	128,115
Lease obligations	13,980	0
Income taxes payable	943	2,360
Provision for bonuses	4,596	3,916
Advances received	128,288	115,240
Other	59,378	56,572
Total current liabilities	424,099	455,913
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	21,973
Other	9,435	8,638
Total non-current liabilities	108,498	85,612
Total liabilities	532,598	541,525
<u>Net assets</u>		
Shareholders' equity:		
Capital stock	96,863	114,362
Capital surplus	213,648	231,148
Retained earnings	(233,281)	(242,804)
Total shareholders' equity	77,229	102,706
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	—	7
Foreign currency translation adjustment	10,838	9,118
Remeasurements of defined benefit plans	(7,731)	(7,103)
Total accumulated other comprehensive income	3,106	2,022
Share acquisition rights	47	47
Non-controlling interests	1,662	2,065
Total net assets	82,046	106,841
Total liabilities and net assets	614,644	648,367

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

Consolidated Statement of Income

	(Millions of Yen)	
	April 1, 2017 - September 30, 2017	April 1, 2018 - September 30, 2018
Net sales	373,856	214,273
Cost of sales	370,762	205,711
Gross profit	3,094	8,561
Selling, general and administrative expenses	29,901	23,037
Operating income (loss)	(26,806)	(14,475)
Non-operating income:		
Interest income	58	80
Foreign exchange gains	—	3,815
Rent income	254	233
Fiduciary obligation fee	868	606
Subsidy income	69	572
Other	353	294
Total non-operating income	1,603	5,602
Non-operating expenses:		
Interest expenses	1,342	1,288
Share of loss of entities accounted for using equity method	6,455	4,941
Foreign exchange losses	49	—
Depreciation	4,545	428
Other	2,582	3,496
Total non-operating expenses	14,974	10,155
Ordinary income (loss)	(40,178)	(19,029)
Extraordinary income:		
Gain on change in equity	—	11,943
Total extraordinary income	—	11,943
Extraordinary losses:		
Business structure improvement expenses	16,480	—
Provision of allowance for doubtful accounts	1,467	—
Total extraordinary losses	17,948	—
Income (loss) before income taxes	(58,126)	(7,085)
Income taxes	9,092	2,034
Net income (loss)	(67,219)	(9,120)
Net income (loss) attributable to non-controlling interests	814	402
Net income (loss) attributable to owners of the parent	(68,033)	(9,523)

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

	(Millions of Yen)	
	April 1, 2017 - September 30, 2017	April 1, 2018 - September 30, 2018
Net income (loss)	(67,219)	(9,120)
Other comprehensive income:		
Valuation difference on available-for-sale securities	—	7
Deferred gains or losses on hedges	(112)	—
Foreign currency translation adjustment	1,881	(1,719)
Remeasurements of defined benefit plans, net of tax	617	627
Total other comprehensive income	2,387	(1,084)
Comprehensive income	(64,832)	(10,204)
(Breakdown)		
Comprehensive income attributable to owners of the parent	(65,666)	(10,607)
Comprehensive income attributable to non-controlling interests	834	402

(3) Consolidated Statement of Cash Flows

	(Millions of Yen)	
	April 1, 2017 - September 30, 2017	April 1, 2018 - September 30, 2018
Cash flows from operating activities		
Income (loss) before income taxes	(58,126)	(7,085)
Depreciation	46,536	22,153
Amortization of goodwill	1,035	1,003
Increase (decrease) in allowance for doubtful accounts	1,447	(19)
Interest expenses	1,342	1,288
Foreign exchange losses (gains)	(1,132)	(6,655)
Share of loss (profit) of entities accounted for using equity method	6,455	4,941
Subsidy income	(69)	(572)
Loss (gain) on change in equity	—	(11,943)
Business structure improvement expenses	16,480	—
Decrease (increase) in notes and accounts receivable - trade	30,181	3,630
Decrease (increase) in inventories	(3,992)	(19,571)
Increase (decrease) in notes and accounts payable - trade	(8,839)	34,803
Decrease (increase) in accounts receivable - other	7,697	(27,681)
Increase (decrease) in accounts payable - other	4,669	12,845
Increase (decrease) in accrued expenses	(8,310)	(8,063)
Decrease (increase) in consumption taxes refund receivable	270	1,156
Decrease (increase) in advances paid	—	(16,616)
Increase (decrease) in advances received	(35,609)	(13,033)
Increase (decrease) in net defined benefit liability	(1,308)	(1,466)
Other, net	(1,507)	2,135
Subtotal	(2,780)	(28,752)
Interest and dividend income received	58	80
Interest expenses paid	(1,336)	(1,284)
Income taxes paid	(828)	(1,059)
Income taxes refund	38	—
Net cash provided by (used in) operating activities	(4,848)	(31,015)

(3) Consolidated Statement of Cash Flows

	(Millions of Yen)	
	April 1, 2017 - September 30, 2017	April 1, 2018 - September 30, 2018
Cash flows from investing activities		
Purchase of investment securities	(3,250)	(5,163)
Purchase of non-current assets	(26,971)	(29,302)
Proceeds from sales of non-current assets	79	18,929
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(4,931)
Proceeds from subsidy income	69	972
Other, net	36	323
Net cash provided by (used in) investing activities	(30,035)	(19,172)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	30,959	29,014
Redemption of bonds	—	(20,000)
Repayments of lease obligations	(12,486)	(13,980)
Proceeds from issuance of common shares	—	34,999
Net cash provided by (used in) financing activities	18,472	30,034
Effect of exchange rate change on cash and cash equivalents	1,003	1,520
Net increase (decrease) in cash and cash equivalents	(15,407)	(18,632)
Cash and cash equivalents at beginning of period	82,247	80,866
Cash and cash equivalents at end of period	66,839	62,233

(4) 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 yen and legal capital surplus increased by 17,499 million yen in the first three months of FY 2018, and accordingly capital stock was 114,362 million yen and capital surplus was 231,148 million yen at the end of the second 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 September 30, 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 prior consolidated fiscal year.