

Second Quarter, FYE September 2019 Financial Report [Japan GAAP] (Consolidated) May 13, 2019

Company Name SK-Electronics Co., Ltd. Stock Listing: Exchange Tokyo Stock Exchange
Code No. 6677 URL <http://www.sk-el.co.jp>
Representative (Title) President Masanori Ishida
Contact (Title) Director Yasuhisa Mukaida (TEL) 075 (441) 2333
Second Quarter Earnings May 13, 2019 Scheduled Date for Commencement of Dividend— Payments
Preparation of Summary Supplementary Explanatory Materials: Yes
Quarterly Earnings Presentations: Yes (for institutional investors and analysts)

(Rounded down to the nearest ¥ million)

1. Consolidated Results of Operations for the Second Quarter FYE 9/2019 (October 1, 2018 through March 31, 2019)

(1) Consolidated Results of Operations (cumulative) (% indicates increase/decrease vs. same period of the prior year)

	Net Sales		Operating Income		Ordinary Income		Net income attributable to owners of the parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
2Q FYE 9/2019	13,699	37.3	3,621	214.3	3,742	194.5	2,684	180.9
2Q FYE 9/2018	9,977	25.0	1,152	27.0	1,270	67.5	955	25.8

Comprehensive Income
(Note) 2Q FYE 9/2019 2,374 million yen (165.5%) 2Q FYE 9/2018 894 million yen (-50.6%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
2Q FYE 9/2019	254.85	—
2Q FYE 9/2018	90.44	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	¥ millions	¥ millions	%	Yen
2Q FYE 9/2019	30,448	22,057	70.7	2,042.51
FYE 9/2018	28,756	19,862	67.3	1,835.75

Owned Capital
(Refere nce) 2Q FYE 9/2019 21,517 million yen FYE 9/2018 19,339 million yen

(Note) The SK-Electronics Group adopted the " Partial Amendments to Accounting Standard for Tax Effect Accounting" (Corporate Accounting Standard No. 28, February 16, 2018) and other standards from the consolidated fiscal year starting October 1, 2018. These standards have been applied retroactively to the indicators above for past consolidated fiscal years.

2. Dividends

	Dividend per Share				
	First Quarter	Second Quarter	Third Quarter	Fiscal Year End	Total
	Yen	Yen	Yen	Yen	Yen
FYE 9/2018	—	0.00	—	17.00	17.00
FYE 9/2019	—	0.00	—	—	—
FYE 9/2019 (Projected)	—	—	—	30.00	30.00

(Note) Revisions to most recently announced dividend forecast: Yes

3. Projected Consolidated Results of Operations for FYE 9/2019 (October 1, 2018 through September 30, 2019)

(% indicates increase/decrease compared to prior year or prior year interim period)

	Net Sales		Operating Income		Ordinary Income		Net income attributable to owners of the parent		Net Income per Share
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%	Yen
Full Year	26,100	14.6	5,600	27.4	5,700	24.0	4,000	21.9	379.70

(Note) Revisions to most recently announced earnings projection: Yes

We plan a fiscal year-end dividend of ¥30 per share, a hike of ¥13. This reflects expectations that consolidated earnings will outperform the initial forecast.

*Notes

(1) Changes in significant subsidiaries during the period : None

(2) Adoption of special accounting treatment for the preparation of
quarterly consolidated earnings statements : None

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

<1> Changes in accounting policies in conjunction with
revisions of accounting standards etc. : None

<2> Changes in accounting policies other than those in <1> : None

<3> Changes in accounting estimates : None

<4> Retrospective restatements : None

(4) Number of shares issued and outstanding (common stock)

<1> Number of shares issued and outstanding at end of period (including treasury stock)	2Q 9/2019	FYE 11,368,400 shares	FYE 9/2018	11,368,400 shares
<2> Number of shares of treasury stock at end of period	2Q 9/2019	FYE 833,771 shares	FYE 9/2018	833,716 shares
<3> Average number of shares during the period (Quarterly cumulative)	2Q 9/2019	FYE 10,534,656 shares	2Q 9/2018	FYE 10,568,584 shares

(Note) The number of shares of treasury stock include SK-Electronics shares held in trust for the directors' stock-based compensation system. These treasury shares are excluded when calculating the number of shares of treasury stock at end of period under review and the average number of shares during the period.

*This quarterly earnings report is exempt from quarterly review procedures by either a certified public accountant or an audit firms.

*Explanation concerning appropriate use of the projected operating results and other special remarks

The forward-looking statements, including the operating results forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Actual business results may differ substantially due to a number of factors. Please see Page 5 "1. Qualitative Information on Consolidated Operating Results for the Second Quarter of FYE September 2019, (3) Qualitative Explanation on Consolidated Earnings Projections" concerning the assumptions used as the basis for the projected operating results and matters to note before using the projected operating results.

○Attachments Table of Contents

1. Qualitative Information on Consolidated Operating Results for the Second Quarter of FYE September 2019	5
(1) Qualitative Explanation on Consolidated Results of Operations	5
(2) Qualitative Explanation on Consolidated Financial Position	5
(3) Qualitative Explanation on Consolidated Earnings Projections	5
2. Quarterly Consolidated Financial Statements & Notes	6
(1) Quarterly Consolidated Balance Sheets	6
(2) Quarterly Consolidated Statement of Income and Consolidated Statement of Comprehensive Income	8
(3) Notes to the Quarterly Consolidated Financial Statements	10
(Notes relating to the assumptions of going concerns)	10
(Notes in the event of Significant Changes in Shareholders' Equity)	10
(Additional Information)	10

1. Qualitative Information on Consolidated Operating Results for the Second Quarter of FYE September 2019

(1) Qualitative Explanation on Consolidated Results of Operations

In the second quarter of consolidated FYE September 2019, although the economy in Japan gradually trended toward recovery overall owing to improvements in the employment, income and corporate earnings environments, the global economy continue to be clouded mainly due to US-China trade trends, uncertainties in overseas economies and the impact from fluctuations in financial and capital markets.

In the flat panel display industry, in which the SK-Electronics Group is a key player, conditions are harsh due to a stagnant smartphone market and as panel selling prices are closing in on manufacturing cost. However, panel development continues to be high paced given the announcement of new models, including a 5G-compatible smartphone and foldable smartphones.

In the photomask market, given smooth operations at Gen-10.5 and higher LCD panel fabrication plants in China, demand is brisk for Gen-10 and higher photomasks. Demand for Gen-8.5 and earlier photomasks is expanding owing to expanded product lineup, including smartphones, and for the development of OLED panels and LTPS LCD panels.

Accordingly, the SK-Electronics Group posted consolidated net sales of ¥13,699 million, an increase of 37.3% year-on-year, operating income of ¥3,621 million, an increase of 214.3%, and ordinary income of ¥3,742 million, a rise of 194.5%. Meanwhile, net income attributable to owners of the parent totaled ¥2,684 million, a growth of 180.9%.

(2) Qualitative Explanation on Consolidated Financial Position

At the end of the second quarter of consolidated FYE September 2019, total assets came to ¥30,448 million, an increase of ¥1,691 million versus the end of the prior consolidated fiscal year. This mainly reflects a decline in notes and accounts receivable - trade but an increase in cash and deposits and construction in progress.

Total liabilities stood at ¥8,391 million, a decrease of ¥503 million versus the end of the prior consolidated fiscal year. This primarily reflects an increase in income taxes payable, but a decline in other current liabilities.

Total net assets were ¥22,057 million, an increase of ¥2,194 million versus the end of the prior consolidated fiscal year. This mainly reflects a decline in foreign currency translation adjustment but an increase in retained earnings.

(3) Qualitative Explanation on Consolidated Earnings Projections

Earnings projections for the full fiscal year were announced separately on the same day. For details refer to the Notification Concerning Business Forecast and Dividend Forecast Revisions.

2. Quarterly Consolidated Financial Statements & Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: ¥ thousands)

	Prior consolidated fiscal year (FYE 9/2018)	Second Quarter FYE9/2019 (Ended March 31, 2019)
Assets		
Current assets		
Cash and deposits	7,214,123	10,998,701
Notes and accounts receivable - trade	7,236,815	4,908,890
Merchandise and finished goods	52,478	49,362
Work in process	402,226	379,708
Raw materials and supplies	1,714,420	2,065,554
Other	420,912	392,901
Allowance for doubtful accounts	-3,299	-2,147
Total current assets	17,037,677	18,792,972
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,394,212	3,216,618
Machinery, equipment and vehicles, net	4,431,685	3,414,771
Land	1,667,702	1,667,702
Construction in progress	952,032	2,040,857
Other, net	140,552	148,340
Total property, plant and equipment	10,586,184	10,488,289
Intangible assets		
Software	348,600	401,645
Other	596	491
Total intangible assets	349,196	402,136
Investments and other assets		
Other	783,838	896,241
Allowance for doubtful accounts	-100	-130,984
Total investments and other assets	783,738	765,256
Total non-current assets	11,719,120	11,655,682
Assets	28,756,797	30,448,655

(Unit: ¥ thousands)

	Prior consolidated fiscal year (FYE 9/2018)	Second Quarter FYE9/2019 (Ended March 31, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,213,194	4,459,686
Current portion of long-term loans payable	300,000	300,000
Income taxes payable	1,076,108	1,467,054
Allowance for bonuses to directors	85,000	—
Other	2,420,721	1,513,520
Total current liabilities	8,095,023	7,740,262
Non-current liabilities		
Long-term loans payable	750,000	600,000
Provision for stock compensation for directors	—	6,275
Other	49,336	44,804
Total non-current liabilities	799,336	651,079
Total liabilities	8,894,360	8,391,341
Net assets		
Shareholders' equity		
Capital stock	4,109,722	4,109,722
Capital surplus	4,051,600	4,128,000
Retained earnings	11,277,069	13,782,755
Treasury shares	-800,478	-877,002
Total shareholders' equity	18,637,913	21,143,475
Other cumulative comprehensive income		
Valuation difference on available-for-sale securities	186,557	115,196
Foreign currency translation adjustment	514,604	258,393
Total other cumulative comprehensive income	701,162	373,590
Noncontrolling interests	523,361	540,248
Total net assets	19,862,437	22,057,314
Total liabilities and net assets	28,756,797	30,448,655

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

Quarterly Consolidated Statement of Income
Consolidated Second Quarter

(Unit: ¥ thousands)

	Second Quarter FYE9/2018 (Oct. 1, 2017 to Mar. 31, 2018)	Second Quarter FYE9/2019 (Oct. 1, 2018 to Mar. 31, 2019)
Net sales	9,977,129	13,699,580
Cost of sales	7,581,177	8,566,359
Gross profit	2,395,951	5,133,221
Selling, general and administrative expenses	1,243,527	1,511,720
Operating Income	1,152,423	3,621,501
Non-operating income		
Interest income	3,829	10,789
Real estate rent	9,945	15,420
Gain on foreign exchange rate translations	43,416	97,959
Subsidy income	61,600	—
Other	11,711	9,452
Total non-operating income	130,503	133,622
Non-operating expenses		
Interest expenses	4,356	3,112
Rent cost of real estate	5,321	8,781
Other	2,278	731
Total non-operating expenses	11,956	12,625
Ordinary Income	1,270,970	3,742,498
Extraordinary income		
Subsidy income	100,000	100,000
Total extraordinary income	100,000	100,000
Extraordinary losses		
Loss on retirement of non-current assets	1,142	427
Total extraordinary losses	1,142	427
Income before income taxes	1,369,827	3,842,071
Income taxes - current	311,748	1,188,714
Income taxes - deferred	65,206	-66,777
Total income taxes	376,954	1,121,936
Net Income	992,872	2,720,135
Net income attributable to the non-controlling interests	37,035	35,359
Net income attributable to owners of the parent	955,837	2,684,775

Quarterly Consolidated Statement of Comprehensive Income
Consolidated Second Quarter

(Unit: ¥ thousands)

	Second Quarter FYE9/2018 (Oct. 1, 2017 to Mar. 31, 2018)	Second Quarter FYE9/2019 (Oct. 1, 2018 to Mar. 31, 2019)
Net Income	992,872	2,720,135
Other comprehensive income		
Valuation difference on available-for-sale securities	51,345	-71,360
Foreign currency translation adjustment	-150,117	-274,683
Other comprehensive income	-98,772	-346,044
Comprehensive Income	894,100	2,374,090
(Comprehensive income attributable to)		
Owners of parent	867,571	2,357,203
Non-controlling interests	26,529	16,887

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes relating to the assumptions of going concerns)

The Company had no material items to report

(Notes in the event of Significant Changes in Shareholders' Equity)

The Company had no material items to report

(Additional Information)

(Director stock-based compensation system)

In accordance with a decision passed at the 17th Annual Shareholders' Meeting, held on December 21, 2018, S-K Electronics introduced a stock-based compensation system (hereinafter "scheme"), which implements use of a trust, for directors (excluding outside directors and auditors or other committee members). This scheme clarifies the link between director compensation and share price performance. Directors share profit and risk due to share price fluctuations with shareholders. The goal is to boost awareness among directors regarding their contribution to earnings improvement in the medium/long-term and to increasing corporate value.

The accounting treatment for the related trust agreement is carried out in accordance with the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (PITF No. 30, March 26, 2015).

1. Transaction summary

In the stock-based compensation system, a trust is established through cash contributions from S-K Electronics. The trust then acquires shares in S-K Electronics. The shares in the trust are delivered to the directors based on the number of points the company awards each director. Note that the timing of the delivery of this stock in principle coincides with the director's retirement from the company.

2. Treasury stock remaining in trust

The shares remaining in the trust are calculated at book value (excluding any incidental expenses) and posted as treasury shares under Net Assets. At the end of the period under review, the book value of this treasury shares was ¥172,500,000 and the total number of shares of treasury stock was 100,000.

(Adoption of the "Partial Amendments to Accounting Standard for Tax-effect Accounting", etc.)

The SK-Electronics Group adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Corporate Accounting Standard No. 28, February 16, 2018) and other standards from the consolidated fiscal year starting October 1, 2018. In accordance with this, deferred tax assets are now posted under the category of "total investments and other assets" while deferred tax liabilities now appear under the category of "non-current liabilities."