

Third Quarter, FYE September 2019 Financial Report [Japan GAAP] (Consolidated)

August 13, 2019

Company Name SK-Electronics Co., Ltd. Stock Exchange Listing: Tokyo Stock Exchange
 Code No. 6677 URL <http://www.sk-el.co.jp>
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 Third Quarter Earnings Report August 13, 2019 Scheduled Date for Commencement of Dividend Payments —
 Preparation of Summary Supplementary Explanatory Materials: Yes
 Quarterly Earnings Presentations: None

(Rounded down to the nearest ¥ million)

1. Consolidated Results of Operations for the Third Quarter FYE 9/2019 (October 1, 2018 through June 30, 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 | % |
| 3Q FYE 9/2019 | 20,512 | 29.9 | 5,491 | 129.7 | 5,794 | 122.9 | 4,218 | 123.1 |
| 3Q FYE 9/2018 | 15,796 | 29.2 | 2,391 | 100.5 | 2,599 | 144.1 | 1,890 | 223.0 |

(Note) Comprehensive Income 3Q FYE 9/2019 3,653 million yen (106.6%) 3Q FYE 9/2018 1,768 million yen (9.3%)

| | Net Income per Share | Diluted Net Income per Share |
|---------------|----------------------|------------------------------|
| | Yen | Yen |
| 3Q FYE 9/2019 | 400.43 | — |
| 3Q FYE 9/2018 | 179.10 | — |

(3) Consolidated Financial Position

| | Total Assets | Net Assets | Equity Ratio | Net Assets per Share |
|---------------|--------------|------------|--------------|----------------------|
| | ¥ millions | ¥ millions | % | Yen |
| 3Q FYE 9/2019 | 31,721 | 23,302 | 71.8 | 2,161.63 |
| FYE 9/2018 | 28,756 | 19,862 | 67.3 | 1,835.75 |

(Reference) Owned Capital 3Q FYE 9/2019 22,771 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: None

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 | 26,000 | 14.2 | 6,000 | 36.5 | 6,300 | 37.1 | 4,600 | 40.2 | 436.66 |

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

*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)

| | | | |
|---------------|-------------------|------------|-------------------|
| 3Q FYE 9/2019 | 11,368,400 shares | FYE 9/2018 | 11,368,400 shares |
|---------------|-------------------|------------|-------------------|

<2> Number of shares of treasury stock at end of period

| | | | |
|---------------|----------------|------------|----------------|
| 3Q FYE 9/2019 | 833,771 shares | FYE 9/2018 | 833,716 shares |
|---------------|----------------|------------|----------------|

<3> Average number of shares during the period (Quarterly cumulative)

| | | | |
|---------------|-------------------|---------------|-------------------|
| 3Q FYE 9/2019 | 10,534,647 shares | 3Q FYE 9/2018 | 10,557,292 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 4 "1. Qualitative Information on Consolidated Operating Results for the Third 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.

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

(1) Qualitative Explanation on Consolidated Results of Operations

In the third 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 continued to be clouded mainly due to concerns of a prolonged US-China trade war, 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, BOE Technology Group (China) received delivery of production equipment in preparation for the scheduled launch of production in the first half of 2020 at the Gen-10.5 LCD panel fabrication plant it built in Wuhan. New OLED panel plants, including Wuhan China Star Optoelectronics Technology Co., Ltd. (Wuhan CSOT) and LG Display Guangzhou Co., Ltd., started producing prototype OLED panels ahead of mass production. In the panel market, shipment volume rose due to rush demand from television manufacturers, triggered by a growing concern that the US would implement a fourth round of additional tariffs on imports from China.

In the photomask market, Photronics, Inc. of the US kicked off production of Gen-10 and higher photomasks at a new plant it built in Hefei, China. As for Gen-8.5 and earlier photomasks, development demand expanded reflecting the launch of a new OLED panel plants.

Accordingly, the SK-Electronics Group posted consolidated net sales of ¥20,512 million, an increase of 29.9% year-on-year, operating income of ¥5,491 million, an increase of 129.7%, and ordinary income of ¥5,794 million, a rise of 122.9%. Meanwhile, net income attributable to owners of the parent totaled ¥4,218 million, a growth of 123.1%.

(2) Qualitative Explanation on Consolidated Financial Position

At the end of the third quarter of consolidated FYE September 2019, total assets came to ¥31,721 million, an increase of ¥2,964 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 ¥8,418 million, a decrease of ¥475 million versus the end of the prior consolidated fiscal year. This primarily reflects a decline in other current liabilities and long-term loans payable.

Total net assets were ¥23,302 million, an increase of ¥3,440 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

In the fourth quarter in the flat panel display industry, a temporary drop is forecast for Gen-10 and higher LCD panel development demand as the market is entering a period of inventory adjustment reflecting ongoing excess supply of panels, and also due to the announcement by the US of a fourth round of additional tariffs in its trade war with China.

Based on the above forecast, in contrast with the third quarter, there is concern of a decline in the net sales of Gen-10 and higher photomasks and deterioration in product mix in the fourth quarter. In addition, depreciation expense is likely to substantially increase due to the execution of a large-scale capex plan in the fourth quarter.

Nonetheless, owing to improvements to product mix implemented throughout the fiscal year, we expect operating income, ordinary income and net income attributable to owners of the parent to outperform the previous forecast.

2. Quarterly Consolidated Financial Statements & Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: ¥ thousands)

| | Prior consolidated fiscal year (FYE 9/2018) | Third Quarter FYE9/2019 (Ended June 30, 2019) |
|--|--|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 7,214,123 | 8,987,314 |
| Notes and accounts receivable - trade | 7,236,815 | 5,890,804 |
| Merchandise and finished goods | 52,478 | 41,403 |
| Work in process | 402,226 | 293,998 |
| Raw materials and supplies | 1,714,420 | 1,898,157 |
| Other | 420,912 | 579,932 |
| Allowance for doubtful accounts | -3,299 | -2,418 |
| Total current assets | 17,037,677 | 17,689,191 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 3,394,212 | 3,239,996 |
| Machinery, equipment and vehicles, net | 4,431,685 | 3,189,370 |
| Land | 1,667,702 | 1,667,702 |
| Construction in progress | 952,032 | 4,568,543 |
| Other, net | 140,552 | 145,525 |
| Total property, plant and equipment | 10,586,184 | 12,811,137 |
| Intangible assets | | |
| Software | 348,600 | 375,160 |
| Other | 596 | 434 |
| Total intangible assets | 349,196 | 375,594 |
| Investments and other assets | | |
| Other | 783,838 | 972,339 |
| Allowance for doubtful accounts | -100 | -126,706 |
| Total investments and other assets | 783,738 | 845,633 |
| Total non-current assets | 11,719,120 | 14,032,365 |
| Assets | 28,756,797 | 31,721,556 |

(Unit: ¥ thousands)

| | Prior consolidated fiscal year (FYE 9/2018) | Third Quarter FYE9/2019 (Ended June 30, 2019) |
|---|--|--|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 4,213,194 | 4,151,376 |
| Current portion of long-term loans payable | 300,000 | 300,000 |
| Income taxes payable | 1,076,108 | 1,070,868 |
| Allowance for bonuses to directors | 85,000 | — |
| Other | 2,420,721 | 2,309,942 |
| Total current liabilities | 8,095,023 | 7,832,187 |
| Non-current liabilities | | |
| Long-term loans payable | 750,000 | 525,000 |
| Provision for stock compensation for directors | — | 12,550 |
| Other | 49,336 | 48,921 |
| Total non-current liabilities | 799,336 | 586,471 |
| Total liabilities | 8,894,360 | 8,418,659 |
| 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 | 15,316,366 |
| Treasury shares | -800,478 | -877,002 |
| Total shareholders' equity | 18,637,913 | 22,677,086 |
| Other cumulative comprehensive income | | |
| Valuation difference on available-for-sale securities | 186,557 | 114,618 |
| Foreign currency translation adjustment | 514,604 | -19,724 |
| Total other cumulative comprehensive income | 701,162 | 94,893 |
| Noncontrolling interests | 523,361 | 530,916 |
| Total net assets | 19,862,437 | 23,302,897 |
| Total liabilities and net assets | 28,756,797 | 31,721,556 |

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

Quarterly Consolidated Statement of Income

Consolidated Third Quarter

(Unit: ¥ thousands)

| | Third Quarter FYE9/2018 (Oct. 1, 2017 to Jun. 30, 2018) | Third Quarter FYE9/2019 (Oct. 1, 2018 to Jun. 30, 2019) |
|--|--|--|
| Net sales | 15,796,221 | 20,512,307 |
| Cost of sales | 11,510,897 | 12,888,819 |
| Gross profit | 4,285,323 | 7,623,487 |
| Selling, general and administrative expenses | 1,894,291 | 2,131,543 |
| Operating Income | 2,391,032 | 5,491,943 |
| Non-operating income | | |
| Interest income | 6,313 | 18,304 |
| Real estate rent | 14,970 | 22,688 |
| Gain on foreign exchange rate translations | 114,215 | 232,923 |
| Subsidy income | 61,600 | — |
| Other | 27,686 | 47,283 |
| Total non-operating income | 224,785 | 321,199 |
| Non-operating expenses | | |
| Interest expenses | 6,297 | 4,384 |
| Rent cost of real estate | 7,981 | 13,264 |
| Other | 2,265 | 828 |
| Total non-operating expenses | 16,545 | 18,478 |
| Ordinary Income | 2,599,272 | 5,794,665 |
| Extraordinary income | | |
| Subsidy income | 100,000 | 100,000 |
| Total extraordinary income | 100,000 | 100,000 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 1,925 | 423 |
| Loss on liquidation of subsidiaries and associates | — | 57,068 |
| Total extraordinary losses | 1,925 | 57,491 |
| Income before income taxes | 2,697,347 | 5,837,173 |
| Income taxes - current | 735,910 | 1,668,298 |
| Income taxes - deferred | 13,626 | -127,354 |
| Total income taxes | 749,537 | 1,540,944 |
| Net Income | 1,947,810 | 4,296,229 |
| Net income attributable to the non-controlling interests | 57,037 | 77,841 |
| Net income attributable to owners of the parent | 1,890,772 | 4,218,387 |

Quarterly Consolidated Statement of Comprehensive Income
Consolidated Third Quarter

(Unit: ¥ thousands)

| | Third Quarter FYE9/2018 (Oct. 1, 2017 to Jun. 30, 2018) | Third Quarter FYE9/2019 (Oct. 1, 2018 to Jun. 30, 2019) |
|---|--|--|
| Net Income | 1,947,810 | 4,296,229 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | -3,344 | -71,939 |
| Foreign currency translation adjustment | -176,460 | -571,129 |
| Other comprehensive income | -179,804 | -643,069 |
| Comprehensive Income | 1,768,005 | 3,653,159 |
| (Comprehensive income attributable to) | | |
| Owners of parent | 1,722,737 | 3,612,118 |
| Non-controlling interests | 45,267 | 41,040 |

(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

(Change in the scope of consolidation)

In the third quarter, the Company sold all its shareholdings in consolidated subsidiary Kiyohara Optics Inc. therefore Kiyohara Optics has been removed from the scope of consolidation.

(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.

Regarding the accounting treatment for the related trust agreement, the Company is applying the gross price method in compliance 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."