

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

November 11, 2019

Company Name	SK-Electronics Co., Ltd.	Stock Exchange Listing: 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
Scheduled Date for Annual Shareholders' Meeting	December 20, 2019	Scheduled Date for Commencement of Dividend Payments
Scheduled Date for Submitting Annual Security Report	December 20, 2019	December 23, 2019
Preparation of Summary Supplementary Explanatory Materials	: Yes	
Earnings Presentations	: Yes (for institutional investors and analysts)	

(Rounded down to the nearest ¥ million)

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

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

	Net Sales		Operating Income		Ordinary Income		Net income attributable to owners of the parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE 9/2019	25,773	13.2	6,028	37.2	6,341	38.0	4,810	46.6
FYE 9/2018	22,772	33.6	4,395	147.1	4,595	176.9	3,281	169.5

(Note) Comprehensive Income
 FYE 9/2019 4,289 million yen (28.3%) FYE 9/2018 3,344 million yen (42.9%)

	Net Income per Share	Diluted Net Income per Share	Return on Equity	Ordinary Income to Total Assets Ratio	Operating Income to Net Sales Ratio
	Yen	Yen	%	%	%
FYE 9/2019	456.89	—	22.6	21.1	23.4
FYE 9/2018	311.03	—	18.4	17.4	19.3

Equity in Earnings (Loss) of
 (Reference) Unconsolidated Subsidiaries and Affiliates
 FYE 9/2019 — million yen FYE 9/2018 — million yen

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	¥ millions	¥ millions	%	Yen
FYE 9/2019	31,415	23,319	74.2	2,224.18
FYE 9/2018	28,756	19,862	67.3	1,835.75

(Reference) Owned Capital FYE 9/2019 23,319 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.

(3) Consolidated Cash Flow

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Year
	¥ millions	¥ millions	¥ millions	¥ millions
FYE 9/2019	9,236	-6,787	-1,150	8,300
FYE 9/2018	5,457	-2,070	-676	7,214

2. Dividends

	Dividend per Share					Total Cash Dividends (FY)	Dividend Payout Ratio (Consolidated)	Dividends on Equity (Consolidated)
	First Quarter	Second Quarter	Third Quarter	Fiscal Year End	Total			
	Yen	Yen	Yen	Yen	Yen	¥ millions	%	%
FYE 9/2018	—	0.00	—	17.00	17.00	179	5.5	0.9
FYE 9/2019	—	0.00	—	35.00	35.00	370	7.7	1.7
FYE 9/2020 (Projected)	—	0.00	—	35.00	35.00		13.6	

3. Projected Consolidated Results of Operations for FYE 9/2020 (October 1, 2019 through September 30, 2020)

((% 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
Interim	12,700	-7.3	1,600	-55.8	1,600	-57.2	1,100	-59.0	104.92
Full Year	27,200	5.5	3,900	-35.3	3,900	-38.5	2,700	-43.9	257.52

*Notes

(1) Changes in significant subsidiaries during the period (Changes in specified subsidiaries due to changes : None in the scope of consolidation)

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

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

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

<3> Changes in accounting estimates : None

<4> Retrospective restatements : None

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

<1> Number of shares issued and outstanding at end of period (including treasury stock)

FYE 9/2019	11,368,400	shares	FYE 9/2018	11,368,400	shares
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<2> Number of shares of treasury stock at end of period

FYE 9/2019	883,804	shares	FYE 9/2018	833,716	shares
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<3> Average number of shares during the period

FYE 9/2019	10,528,062	shares	FYE 9/2018	10,551,598	shares
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(Note) The number of treasury shares deducted when calculating the number of shares of treasury stock at end of FYE 9/2019 and the average number of shares for FYE 9/2019 includes shares held in trust for the director stock-based compensation system.

(Reference) Overview of Non-Consolidated Results of Operations

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

(1) Non-Consolidated Results of Operations (% indicates increase/decrease vs. prior year)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
FYE 9/2019	20,837	16.3	4,380	54.5	4,761	56.0	3,756	71.6
FYE 9/2018	17,914	35.0	2,835	206.2	3,052	132.4	2,189	244.7

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
FYE 9/2019	356.81	—
FYE 9/2018	207.50	—

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	¥ millions	¥ millions	%	Yen
FYE 9/2019	25,878	18,987	73.4	1,810.96
FYE 9/2018	23,835	15,541	65.2	1,475.28

(Reference) Owned Capital FYE 9/2019 18,987 million yen FYE 9/2018 15,541 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. Projected Non-Consolidated Results of Operations for FYE 9/2020 (October 1, 2019 through September 30, 2020)

(% 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
Interim	10,000	-13.1	1,200	-59.6	1,400	-53.4	1,000	-53.9	95.38
Full Year	21,800	4.6	3,200	-26.9	3,900	-26.5	2,400	-36.1	228.91

*This financial report is exempt from audit procedures by either a certified public accountant or an audit firm.

*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 6 "1. Qualitative Information on Consolidated Operating Results for FYE September 2019, (4) Outlook for Consolidated FYE September 2020" 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 FYE September 2019

(1) Qualitative Explanation on Consolidated Results of Operations

In the 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 prolongation of the US-China trade war, uncertainties in overseas economic trends and economic policies in various countries, 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, production capacity for TV LCD panels increased reflecting the start of operations at a Gen-11 LCD panel fabrication plant in China. In addition, the development of OLED panels was brisk due to wider use of OLED panels, mainly in smartphones, and also owing to the start-up of operations at several new OLED panel plants.

Regarding trends in the photomask market and measures conducted by SK-Electronics related to the photomask market, we took steps to acquire market share by maximizing use of our delivery performance and our technical prowess as a leading company. This was in response to brisk demand for Gen-10 and higher photomasks owing to Gen-10.5 LCD panel fabrication plants already in operation in China and newly-launched Gen-11 LCD panel fabrication plants. In addition, in tandem with new OLED panel product development and the start-up of new OLED panel plants, there was demand for OLED panel photomasks, mainly for favorably trending Gen-6 photomasks. To address this demand, we secured orders by effectively using the two drawing devices that were installed in FYE September 2017.

Accordingly, the SK-Electronics Group posted consolidated net sales of ¥25,773 million, an increase of 13.2% year-on-year, operating income of ¥6,028 million, an increase of 37.2%, and ordinary income of ¥6,341 million, a rise of 38.0%. Meanwhile, net income attributable to owners of the parent totaled ¥4,810 million, a growth of 46.6%.

(2) Qualitative Explanation on Consolidated Financial Position

At the end of consolidated FYE September 2019, total assets came to ¥31,415 million, an increase of ¥2,659 million versus the end of the prior consolidated fiscal year. This mainly reflects a decline in notes and accounts receivable - trade but increases in cash and deposits, and property, plant and equipment.

Total liabilities stood at ¥8,096 million, a decrease of ¥798 million versus the end of the prior consolidated fiscal year. This primarily reflects declines in notes and accounts payable - trade and long-term loans payable.

Total net assets were ¥23,319 million, an increase of ¥3,457 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 Cash Flows

Cash and cash equivalents ("cash") at the end of the consolidated fiscal year under review increased by ¥1,086 million compared to the end of the prior consolidated fiscal year, to ¥8,300 million.

(Cash Flows from Operating Activities)

Capital stemming from operating activities in consolidated FYE September 2019 totaled ¥9,236 million, an increase versus ¥5,457 million a year earlier. This is primarily attributable to income before income taxes of ¥6,383 million, depreciation of ¥2,779 million, a decrease in notes and accounts receivable - trade of ¥2,689 million, a decrease in notes and accounts payable - trade of ¥414 million, and income taxes paid of ¥1,658 million.

(Cash Flows from Investing Activities)

Cash flows used in investing activities in consolidated FYE September 2019 totaled ¥6,787 million, a decline versus ¥2,070 million a year earlier. This mainly reflects ¥6,711 million used in the purchase of property, plant and equipment.

(Cash Flows from Financing Activities)

Cash used in financing activities in consolidated FYE September 2019 amounted to ¥1,150 million (a decline versus ¥676 million a year earlier). This mainly reflects repayments of long-term loans payable of ¥300 million, purchase of treasury shares of ¥278 million, and an outlay of ¥514 million for the acquisition of a subsidiary that does not result in a change in the scope of consolidation.

(Reference) Cash Flows Indicator Trends

	FYE 9/2015	FYE 9/2016	FYE 9/2017	FYE 9/2018	FYE 9/2019
Equity Ratio (%)	61.0	70.5	67.8	67.3	74.2
Market value equity ratio (%)	44.8	49.3	55.6	81.1	63.1
Interest-bearing liabilities to cash flow (annual)	0.2	0.2	0.3	0.2	0.1
Interest coverage ratio (times)	276.2	130.0	502.4	659.9	1,657.9

* Equity ratio: Owned capital/Total assets

Market value equity ratio: Market capitalization/Total assets

Interest-bearing liabilities to cash flow: Interest-bearing liabilities/Cash flows

Interest coverage ratio: Cash flows/Interest payments

(Notes) 1. The above indicators have been calculated using consolidated financial figures.

2. Market capitalization is calculated by multiplying the closing share price at year end by total shares issued and outstanding at year end (excluding treasury stock).

3. Cash flows used are Cash Flows from Operating Activities.

4. Interest-bearing liabilities are all consolidated liabilities from the balance sheet for which interest is being paid.

5. Interest payments are the amount of interest paid from the Statement of Cash Flows.

6. 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.

(4) Outlook for Consolidated FYE September 2020

In the flat panel display industry, there is an ongoing shift to organic light emitting diode (OLED) panels for use in smartphone displays, moving away from LCD panels, which have been mainstream thus far. In light of this, facilities investment, mainly among panel manufacturers in China, is focusing on plants for sixth-generation OLED displays. Consequently, the production capacity for OLED panel displays is rising. Meanwhile, in contrast with the movement among manufacturers in China to launch operations of new Gen-10.5 and higher LCD panel fabrication plants, manufacturers in South Korea are downsizing their LCD panel fabrication plants and pouring energies into the OLED business. In light of this, LCD panel fabrication plants are expected to be reorganized.

We aim to secure orders to amply address delivery times by effectively operating three plants in Kyoto, Shiga and Taiwan for OLED panel development photomasks, mainly Gen-6 photomasks, for which demand is expected to grow. We also plan to address customer requests for OLED panels that require a higher degree of advanced high-definition technology, by fully utilizing the cutting-edge drawing devices installed in FYE September 2019. Several competitors have entered the market for Gen-10 and higher photomasks. As a pioneer in the photomask industry, we look to improve our level of quality by using the accomplishments and technological capabilities nurtured over many years. In addition, as a leading company, we aim to differentiate from rivals, mainly by utilizing our price competitiveness.

We also anticipate an increase in depreciation expense. This reflects the ¥5,385 million capital investment conducted in FYE September 2019 and our capital investment plan of ¥4,800 million for advanced high-definition technology in FYE September 2020.

Taking into account the various forecasts above and the large-scale capital investments, in FYE September 2020, we forecast consolidated net sales of ¥27,200 million, an increase of 5.5% year-on-year, operating income of ¥3,900 million, a decrease of 35.3%, ordinary income of ¥3,900 million, a decrease of 38.5%, and net income attributable to owners of the parent of ¥2,700 million, a decrease of 43.9%.

(5) Basic Policy regarding Profit Distribution and Dividends for the Consolidated Fiscal Year under Review and Subsequent Period

The SK-Electronics Group believes that sharing Group profits with our shareholders is one of our most important management concerns, and our basic policy is to implement consistent profit distributions to our shareholders, in proper consideration of

changes in the operating results of the Group. We aim to improve our earnings performance moving forward by fortifying our management structure in preparation for business development. In the medium/long term, we target a consolidated dividend payout ratio of 20%-plus having comprehensively taken into accounts factors, including earnings in each respective fiscal year, financial position trends, and our medium-term investment plan.

Note that, although we posted all-time high earnings in FYE September 2019, in accordance with the above policy and factoring in the large-scale capital investments we look to implement in the medium term, we plan a fiscal year-end dividend payout of ¥35 a share, which is ¥18 higher than the year-end dividend of ¥17 a share for FYE September 2018.

In FYE September 2020, in line with the policy above, our distribution from retained earnings is expected to be ¥35 per share.

2. Basic Policy regarding Selection of Accounting Standards

The SK-Electronics Group prepares consolidated financial statements in accordance with generally accepted accounting principles in Japan. There are no scheduled changes in accounting standards for the time being. That being said, the SK-Electronics Group plans to adopt the International Financial Reporting Standards (IFRS) should the need arise to adequately respond to various circumstances in Japan and abroad.

3. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(Unit: ¥ thousands)

	Prior consolidated fiscal year (FYE 9/2018)	Current consolidated fiscal year (FYE 9/2019)
Assets		
Current assets		
Cash and deposits	7,214,123	8,300,995
Notes and accounts receivable - trade	7,236,815	4,338,393
Merchandise and finished goods	52,478	40,772
Work in process	402,226	407,627
Raw materials and supplies	1,714,420	2,037,854
Other	420,912	768,112
Allowance for doubtful accounts	-3,299	-1,250
Total current assets	17,037,677	15,892,504
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,394,212	3,281,541
Machinery, equipment and vehicles, net	4,431,685	6,920,710
Land	1,667,702	1,667,702
Construction in progress	952,032	2,347,366
Other, net	140,552	146,617
Total property, plant and equipment	10,586,184	14,363,938
Intangible assets		
Software	348,600	353,625
Other	596	393
Total intangible assets	349,196	354,018
Investments and other assets		
Investment securities	340,316	302,898
Deferred tax assets	291,907	352,477
Other	151,614	276,807
Allowance for doubtful accounts	-100	-126,706
Total investments and other assets	783,738	805,477
Total non-current assets	11,719,120	15,523,435
Assets	28,756,797	31,415,939

(Unit: ¥ thousands)

	Prior consolidated fiscal year (FYE 9/2018)	Current consolidated fiscal year (FYE 9/2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,213,194	3,711,833
Current portion of long-term loans payable	300,000	300,000
Income taxes payable	1,076,108	917,847
Allowance for bonuses to directors	85,000	79,474
Other	2,420,721	2,577,540
Total current liabilities	8,095,023	7,586,694
Non-current liabilities		
Long-term loans payable	750,000	450,000
Provision for stock compensation for directors	—	18,825
Other	49,336	40,773
Total non-current liabilities	799,336	509,598
Total liabilities	8,894,360	8,096,292
Net assets		
Shareholders' equity		
Capital stock	4,109,722	4,109,722
Capital surplus	4,051,600	4,167,847
Retained earnings	11,277,069	15,908,130
Treasury shares	-800,478	-982,922
Total shareholders' equity	18,637,913	23,202,778
Other cumulative comprehensive income		
Valuation difference on available-for-sale securities	186,557	160,727
Foreign currency translation adjustment	514,604	-43,859
Total other cumulative comprehensive income	701,162	116,868
Noncontrolling interests	523,361	—
Total net assets	19,862,437	23,319,646
Total liabilities and net assets	28,756,797	31,415,939

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

Consolidated Statement of Income

(Unit: ¥ thousands)

	Prior consolidated fiscal year (From October 1, 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)
Net sales	22,772,091	25,773,612
Cost of sales	15,761,750	16,932,807
Gross profit	7,010,341	8,840,805
Selling, general and administrative expenses	2,614,689	2,811,949
Operating Income	4,395,651	6,028,855
Non-operating income		
Interest income	7,997	18,840
Real estate rent	19,993	29,985
Subsidy income	61,600	—
Gain on foreign exchange rate translations	93,900	237,958
Other	38,943	49,999
Total non-operating income	222,434	336,784
Non-operating expenses		
Interest expenses	8,269	5,571
Rent cost of real estate	11,365	17,880
Other	2,682	820
Total non-operating expenses	22,317	24,272
Ordinary Income	4,595,768	6,341,367
Extraordinary income		
Subsidy income	100,000	100,000
Total extraordinary income	100,000	100,000
Extraordinary losses		
Loss on retirement of non-current assets	2,539	752
Loss on liquidation of subsidiaries and associates	—	57,068
Total extraordinary losses	2,539	57,820
Income before income taxes	4,693,229	6,383,547
Income taxes - current	1,383,908	1,522,009
Income taxes - deferred	-54,695	-49,544
Total income taxes	1,329,212	1,472,465
Net Income	3,364,016	4,911,081
Net income attributable to the noncontrolling interests	82,175	100,930
Net income attributable to owners of the parent	3,281,841	4,810,151

Consolidated Statement of Comprehensive Income

(Unit: ¥ thousands)

	Prior consolidated fiscal year (From October 1, 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)
Net Income	3,364,016	4,911,081
Other comprehensive income		
Valuation difference on available-for-sale securities	-24,773	-25,829
Foreign currency translation adjustment	5,602	-595,253
Other comprehensive income	-19,171	-621,083
Comprehensive Income	3,344,845	4,289,998
(Comprehensive income attributable to)		
Owners of parent	3,262,044	4,225,856
Non-controlling interests	82,800	64,141

(3) Consolidated Statements of Changes in Stockholders' Equity

Prior consolidated fiscal year (From October 1, 2017 to September 30, 2018)

(Unit: ¥ thousands)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	4,109,722	4,051,600	8,155,349	-631,099	15,685,572
Changes of items during the period					
Dividends from surplus			-160,121		-160,121
Net income attributable to owners of the parent			3,281,841		3,281,841
Share buybacks				-169,378	-169,378
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	3,121,720	-169,378	2,952,341
Balance at the end of current period	4,109,722	4,051,600	11,277,069	-800,478	18,637,913

	Other cumulative comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of current period	211,331	509,628	720,959	447,359	16,853,890
Changes of items during the period					
Dividends from surplus					-160,121
Net income attributable to owners of the parent					3,281,841
Share buybacks					-169,378
Net changes of items other than shareholders' equity	-24,773	4,976	-19,796	76,002	56,205
Total changes of items during the period	-24,773	4,976	-19,796	76,002	3,008,546
Balance at the end of current period	186,557	514,604	701,162	523,361	19,862,437

Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)

(Unit: ¥ thousands)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	4,109,722	4,051,600	11,277,069	-800,478	18,637,913
Changes of items during the period					
Dividends from surplus			-179,089		-179,089
Net income attributable to owners of the parent			4,810,151		4,810,151
Share buybacks				-278,544	-278,544
Retirement of treasury shares		76,400		96,100	172,500
Net change in parent's equity related to transactions with noncontrolling shareholders		39,847			39,847
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	116,247	4,631,061	-182,444	4,564,865
Balance at the end of current period	4,109,722	4,167,847	15,908,130	-982,922	23,202,778

	Other cumulative comprehensive income			Noncontrolling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of current period	186,557	514,604	701,162	523,361	19,862,437
Changes of items during the period					
Dividends from surplus					-179,089
Net income attributable to owners of the parent					4,810,151
Share buybacks					-278,544
Retirement of treasury shares					172,500
Net change in parent's equity related to transactions with noncontrolling shareholders					39,847
Net changes of items other than shareholders' equity	-25,829	-558,464	-584,294	-523,361	-1,107,655
Total changes of items during the period	-25,829	-558,464	-584,294	-523,361	3,457,209
Balance at the end of current period	160,727	-43,859	116,868	—	23,319,646

(4) Consolidated Statement of Cash Flows

(Unit: ¥ thousands)

	Prior consolidated fiscal year (From October 1, 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)
Cash Flows from Operating Activities		
Income before income taxes	4,693,229	6,383,547
Depreciation	3,108,464	2,779,081
Increase (decrease) in allowance for doubtful accounts	1,060	124,557
Increase (decrease) in provision for directors' bonuses	40,000	-5,526
Increase (decrease) in provision for stock compensation for directors	—	18,825
Interest and dividend income	-13,824	-24,901
Interest expenses	8,269	5,571
Loss on retirement of non-current assets	2,539	752
Loss on liquidation of subsidiaries and associates	—	57,068
Decrease (increase) in notes and accounts receivable - trade	-2,514,205	2,689,132
Decrease (increase) in inventories	-353,989	-403,260
Increase (decrease) in notes and accounts payable - trade	845,693	-414,518
Other, net	459,949	-334,227
Subtotal	6,277,186	10,876,100
Interest and dividend income received	13,733	25,055
Interest expenses paid	-8,269	-5,571
Income taxes paid	-825,497	-1,658,621
Cash Flows from Operating Activities	5,457,152	9,236,963
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	-2,077,426	-6,711,275
Purchase of intangible assets	-12,896	-125,233
Collection of loans receivable	24,000	24,140
Proceeds from the sale of shares in a subsidiary resulting in a change in the scope of consolidation	—	32,451
Other, net	-4,389	-7,947
Cash Flows from Investing Activities	-2,070,713	-6,787,864
Cash Flows from Financing Activities		
Repayments of long-term loans payable	-300,000	-300,000
Payments for installment payables - property and equipment	-40,237	-30,627
Cash dividends paid	-160,121	-179,089
Proceeds from the retirement of treasury shares	—	172,500
Purchase of treasury shares	-169,378	-278,544
Dividends paid to noncontrolling interests	-6,798	-20,639
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	-514,169
Cash Flows from Financing Activities	-676,535	-1,150,570
Effect of exchange rate change on cash and cash equivalents	2,790	-211,656
Net increase (decrease) in cash and cash equivalents	2,712,693	1,086,871
Balance of cash and cash equivalents at the beginning of the fiscal year	4,501,430	7,214,123
Balance of cash and cash equivalents at the end of the fiscal year	7,214,123	8,300,995

(5) Notes to the Consolidated Financial Statements

(Notes relating to the assumptions of going concerns)

The Company had no material items to report

(Change in the scope of consolidation)

In FYE September 2019, consolidated subsidiary Kiyohara Optics Inc. was removed from the scope of consolidation owing to the sale of all shares in Kiyohara Optics.

(Change in presentation method)

(Changes in tandem with the adoption of the "Partial Amendments to Accounting Standard for Tax-effect Accounting")

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 posted under the category of "total investments and other assets" while deferred tax liabilities appear under the category of "non-current liabilities."

Consequently, in the consolidated balance sheets for FYE September 2019, the ¥290,597 thousand recorded under deferred tax assets in current assets and the ¥7,971 thousand posted under deferred tax liabilities in non-current liabilities were included in the ¥291,907 thousand under deferred tax assets in total investments and other assets.

(Additional Information)

(Director stock-based compensation system)

In accordance with a decision passed at the 17th Annual Shareholders' Meeting, held on December 21, 2018, SK-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 accounting procedures for this trust agreement, SK-Electronics is applying the gross price method in accordance with "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (Practical Issues Task Force No. 30; March 26, 2015).

1. Transaction summary

In the stock-based compensation system, a trust is established through cash contributions from SK-Electronics. The trust then acquires shares in SK-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 FYE September 2019, the book value of these treasury shares was ¥172.5 million and the total number of shares of treasury stock was 100,000.

(Segment Information)

The SK-Electronics Group is engaged in the singular business of the design, production, and sale of photomasks. The Company does not provide segment information-related details because it does not have significant underlying business segments and forms a single reportable segment.

(Per Share Information)

	Prior consolidated fiscal year (From October 1, 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)
Net assets per share	¥1,835.75	¥2,224.18
Net Income per Share	¥311.03	¥456.89

Notes: 1. Net income per share of common stock on a fully diluted basis for the consolidated fiscal year under review is omitted because there are no diluted shares.

2. The basis for calculation of the net assets per share of common stock is shown below.

	Prior consolidated fiscal year (As of September 30, 2018)	Current consolidated fiscal year (As of September 30, 2019)
Amount reported in net assets (¥ thousands)	19,862,437	23,319,646
Amount deducted from net assets (¥ thousands)	523,361	—
(Portion of noncontrolling interests)	(523,361)	—
Net assets at end of period pertaining to common stock (¥ thousands)	19,339,076	23,319,646
Number of shares of common stock at end of period used to calculate net assets per share (shares)	10,534,684	10,484,596

3. The basis for calculation of net income per share is shown below.

	Prior consolidated fiscal year (From October 1, 2017 to September 30, 2018)	Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)
Net income attributable to owners of the parent (¥ thousands)	3,281,841	4,810,151
Amount not attributed to common stock shareholders (¥ thousands)	—	—
Net income attributable to owners of the parent pertaining to common stock (¥ thousands)	3,281,841	4,810,151
Average number of shares of common stock outstanding during the period (shares)	10,551,598	10,528,062

4. The treasury shares remaining in the trust, that were posted as treasury shares under shareholders' equity are included in the treasury shares deducted from the number of common stock outstanding at the end of FYE September 2019 to calculate net assets per share (100,000 shares in consolidated FYE September 2019). Moreover, these treasury shares are also included in the treasury shares deducted when calculating the average number of shares during the period for calculating net income per share (58,630 shares in consolidated FYE September 2019).

(Material Events after the Close of the Consolidated Fiscal Year)

The Company had no material items to report

4. Supplemental information

Sales trends

Sales transactions with major business partners and percentage of total sales

Business partners	Prior consolidated fiscal year (From October 1, 2017 to September 30, 2018)		Current consolidated fiscal year (From October 1, 2018 to September 30, 2019)	
	Sales (¥ thousand)	(%)	Sales (¥ thousand)	(%)
Mitsui Bussan Electronics Ltd.	5,680,272	24.9	5,787,288	22.5
China Star Optoelectronics Technology CO., LTD	—	—	4,151,545	16.1
SAMSUNG DISPLAY CO., LTD.	3,155,062	13.9	3,684,071	14.3
Innolux Corporation	2,384,701	10.5	3,000,076	11.6

Notes: 1. Business partners with sales that make up less than 10% of total sales transactions have been omitted from this list.

2. The yen amounts shown above do not include consumption or other taxes.