



Second Quarter, FYE September 2018 Financial Report [Japan GAAP] (Consolidated)

May 14, 2018

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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 Second Quarter Earnings Report: May 14, 2018 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 9/2018 (October 1, 2017 through March 31, 2018)

(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 9/2018	9,977	25.0	1,152	27.0	1,270	67.5	955	25.8
2Q FYE 9/2017	7,982	0.2	907	8.6	758	-20.5	759	-47.3

(Note) Comprehensive Income: 2Q FYE 9/2018 894 million yen (-50.6%) 2Q FYE 9/2017 1,808 million yen (36.4%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
2Q FYE 9/2018	90.44	—
2Q FYE 9/2017	70.72	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	1Net Assets per Share
	¥ millions	¥ millions	%	Yen
2Q FYE 9/2018	24,163	17,418	70.1	1,608.46
FYE 9/2017	24,196	16,853	67.8	1,536.95

(Note) Owned Capital: 2Q FYE 9/2018 16,944 million yen FYE 9/2017 16,406 million yen

2. Dividends

	Dividend per Share				
	First Quarter	Second Quarter	Third Quarter	Fiscal Year End	Total
	Yen	Yen	Yen	Yen	Yen
FYE 9/2017	—	0.00	—	15.00	15.00
FYE 9/2018	—	0.00	—	—	—
FYE 9/2018 (Projected)	—	—	—	15.00	15.00

(Note) Revisions to most recently announced dividend forecast: No

3. Projected Consolidated Results of Operations for FYE 9/2018 (October 1, 2017 through September 30, 2018)

(% 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	22,000	29.1	3,000	68.6	3,100	86.7	2,200	80.7	208.83

(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)	2QFYE 9/2018	11,368,400 shares	FYE 9/2017	11,368,400 shares
<2> Number of shares of treasury stock at end of period	2Q FYE 9/2018	833,692 shares	FYE 9/2017	693,662 shares
<3> Average number of shares during the period (Quarterly cumulative)	2Q FYE 9/2018	10,568,584 shares	2QFYE 9/2017	10,740,245 shares

*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 XX. Qualitative Information on Operating Results for the First Quarter (3) Qualitative Explanation on Consolidated Earnings Projections of the attachments below.”

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1. Qualitative Information on Consolidated Operating Results for the Second Quarter of FYE September 2018

(1) Qualitative Explanation on Consolidated Results of Operations

In the second quarter of consolidated FYE September 2018, uncertainties continued to weigh on Japan's economy. Although the economy trended modestly toward recovery, underpinned by improvements in the employment and income environments owing to a boost from the government's economic policies and the Bank of Japan's monetary easing policies, several issues posed risks, including the geopolitical risk triggered by the situation with North Korea, the policy management by the United States government and economic trends in China.

In the flat panel display industry, in which the SK-Electronics Group is a key player, as production plans progress for Gen-10.5 LCD panels, BOE Technology Group (China) has launched construction of its No. 2 plant in Wuhan and Hon Hai Precision Industry Co., Ltd. of Taiwan aims to commence operations at a Gen-10.5 LCD panel fabrication plant under construction in Guangzhou, China earlier than scheduled. In the organic EL market, sluggish iPhone X sales triggered a decline in the operating rate at the organic light emitting diode (OLED) displays plant. In the panel market, prices for large panels and small- and medium-sized panels continued to decline due to a prolonged sales slump in China for TVs and smartphones. Revenue at major panel manufacturers is expected to underperform initial plans. As for photomask demand trends, there is increased development of next-generation smartphones that will use LTPS LCD panels but demand is likely to remain flat due in part to delayed development of large-screen TVs.

Accordingly, the SK-Electronics Group posted consolidated net sales of ¥9,977 million, an increase of 25.0% year-on-year, operating income of ¥1,152 million, an increase of 27.0%, and ordinary income of ¥1,270 million, a rise of 67.5%. Meanwhile, net income attributable to owners of the parent totaled ¥955 million, a growth of 25.8%.

(2) Qualitative Explanation on Consolidated Financial Position

At the end of the second quarter of consolidated FYE September 2018, total assets came to ¥24,163 million, a decrease of ¥32 million versus the end of the prior consolidated fiscal year. This mainly reflected an increase in cash and deposits although other current assets and property, plant and equipment declined.

Total liabilities stood at ¥6,745 million, a decrease of ¥597 million versus the end of the prior consolidated fiscal year. This primarily reflected an increase in notes and accounts payable – trade, while income taxes payable and other current liabilities declined.

Total net assets were ¥17,418 million, an increase of ¥564 million versus the end of the prior consolidated fiscal year. This mainly reflects 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 Notification Concerning Business Forecast Revisions.

2. Quarterly Consolidated Financial Statements & Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: ¥ thousands)

	Prior consolidated fiscal year (FYE9/2017)	Second Quarter FYE9/2018 (Ended March 31, 2018)
Assets		
Current assets		
Cash and deposits	4,501,430	6,302,958
Notes and accounts receivable - trade	4,715,123	4,340,182
Merchandise and finished goods	69,580	70,314
Work in process	370,838	311,819
Raw materials and supplies	1,373,940	1,630,557
Other	1,018,327	529,835
Allowance for doubtful accounts	-2,239	-1,673
Total current assets	12,047,000	13,183,994
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,645,440	3,483,051
Machinery, equipment and vehicles, net	5,403,010	4,391,558
Land	1,607,750	1,667,702
Construction in progress	316,367	263,689
Other, net	183,412	164,829
Total property, plant and equipment	11,155,981	9,970,831
Intangible assets		
Software	450,034	405,104
Other	770	668
Total intangible assets	450,804	405,773
Investments and other assets		
Other	542,535	603,264
Allowance for doubtful accounts	-100	-100
Total investments and other assets	542,435	603,164
Total non-current assets	12,149,222	10,979,769
Assets	24,196,222	24,163,763

(Unit: ¥ thousands)

	Prior consolidated fiscal year (FYE9/2017)	Second Quarter FYE9/2018 (Ended March 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,364,482	3,880,243
Current portion of long-term loans payable	300,000	300,000
Income taxes payable	512,294	312,271
Allowance for bonuses to directors	45,000	—
Other	1,958,719	1,238,335
Total current liabilities	6,180,495	5,730,850
Non-current liabilities		
Long-term loans payable	1,050,000	900,000
Other	111,836	114,373
Total non-current liabilities	1,161,836	1,014,373
Total liabilities	7,342,332	6,745,224
Net assets		
Shareholders' equity		
Capital stock	4,109,722	4,109,722
Capital surplus	4,051,600	4,051,600
Retained earnings	8,155,349	8,951,065
Treasury shares	-631,099	-800,430
Total shareholders' equity	15,685,572	16,311,957
Other cumulative comprehensive income		
Valuation difference on available-for-sale securities	211,331	262,676
Foreign currency translation adjustment	509,628	370,016
Total other cumulative comprehensive income	720,959	632,693
Noncontrolling interests	447,359	473,888
Total net assets	16,853,890	17,418,539
Total liabilities and net assets	24,196,222	24,163,763

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

Quarterly Consolidated Statement of Income
Consolidated Second Quarter

(Unit: ¥ thousands)

	Second Quarter FYE9/2017 (Oct. 1, 2016 to Mar. 31, 2017)	Second Quarter FYE9/2018 (Oct. 1, 2017 to Mar. 31, 2018)
Net sales	7,982,236	9,977,129
Cost of sales	5,760,580	7,581,177
Gross profit	2,221,656	2,395,951
Selling, general and administrative expenses	1,313,899	1,243,527
Operating Income	907,756	1,152,423
Non-operating income		
Interest income	3,501	3,829
Real estate rent	9,980	9,945
Gain on foreign exchange rate translations	—	43,416
Subsidy income	26,831	61,600
Other	25,663	11,711
Total non-operating income	65,976	130,503
Non-operating expenses		
Interest expenses	2,530	4,356
Foreign exchange losses	198,452	—
Rent cost of real estate	5,346	5,321
Other	8,673	2,278
Total non-operating expenses	215,002	11,956
Ordinary Income	758,731	1,270,970
Extraordinary income		
Subsidy income	100,000	100,000
Insurance payment received	344,354	—
Total extraordinary income	444,354	100,000
Extraordinary losses		
Loss on retirement of non-current assets	4,156	1,142
Total extraordinary losses	4,156	1,142
Income before income taxes	1,198,929	1,369,827
Income taxes - current	302,318	311,748
Income taxes - deferred	263	65,206
Total income taxes	302,581	376,954
Net Income	896,347	992,872
Net income attributable to the non-controlling interests	136,779	37,035
Net income attributable to owners of the parent	759,567	955,837

Quarterly Consolidated Statement of Comprehensive Income
Consolidated Second Quarter

(Unit: ¥ thousands)

	Second Quarter FYE9/2017 (Oct. 1, 2016 to Mar. 31, 2017)	Second Quarter FYE9/2018 (Oct. 1, 2017 to Mar. 31, 2018)
Net Income	896,347	992,872
Other comprehensive income		
Valuation difference on available-for-sale securities	55,147	51,345
Foreign currency translation adjustment	856,626	-150,117
Other comprehensive income	911,774	-98,772
Comprehensive Income	1,808,122	894,100
(Comprehensive income attributable to)		
Owners of parent	1,476,214	867,571
Non-controlling interests	331,907	26,529

(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.