

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

February 12, 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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First Quarter Earnings Report	February 12, 2019	Scheduled Date for Commencement of Dividend Payments	—
Preparation of Summary Supplementary Explanatory Materials: Yes			
Quarterly Earnings Presentations: No			

(Rounded down to the nearest ¥ million)

1. Consolidated Results of Operations for the First Quarter FYE 9/2019 (October 1, 2018 through December 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	%
1Q FYE 9/2019	6,672	12.7	1,398	42.0	1,506	54.3	1,046	48.6
1Q FYE 9/2018	5,919	49.2	985	87.3	976	148.8	704	155.5

(Note) Comprehensive Income 1Q FYE 9/2019 736 million yen (-18.9%) 1Q FYE 9/2018 908 million yen (-16.2%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
1Q FYE 9/2019	99.32	—
1Q FYE 9/2018	66.41	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	¥ millions	¥ millions	%	Yen
1Q FYE 9/2019	29,431	20,419	67.6	1,888.46
FYE 9/2018	28,756	19,862	67.3	1,835.75

(Reference) Owned Capital 1Q FYE 9/2019 19,894 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	—	—	—	—	—
FYE 9/2019 (Projected)	—	0.00	—	17.00	17.00

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

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
Interim	12,600	26.3	2,700	134.3	2,700	112.4	1,800	88.3	170.86
Full Year	25,000	9.8	4,700	6.9	4,700	2.3	3,200	-2.5	303.76

(Note) Revisions to most recently announced earnings projection: No

* 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)

1Q FYE 9/2019	11,368,400 shares	FYE 9/2018	11,368,400 shares
1Q FYE 9/2019	833,771 shares	FYE 9/2018	833,716 shares
1Q FYE 9/2019	10,534,683 shares	1Q FYE 9/2018	10,601,695 shares

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

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

※ 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 First 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 First Quarter of FYE September 2019

(1) Qualitative Explanation on Consolidated Results of Operations

In the first 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, China Start Optoelectronics Technology (CSOT) fired up its Gen-11 LCD panel fabrication plant. In addition, CSOT also embarked on construction of a No. 2 fabrication line. In the organic EL display (OLED) market, a panel manufacturer in China announced capex plans for a new Gen-6 OLED display plant. In technological trends, there continued to be competition in development among manufacturers in China and South Korea. In the panel market, selling prices declined for small-, medium-, and large-sized panels owing mainly to inventory adjustments at assembled product manufacturers, an increase in products at panel manufacturers in China, and saturation of the smartphone market. In the photomask market, demand was brisk for Gen-10 and higher photomasks owing to the start of operations at Gen-11 LCD panel plants. As for Gen-8.5 and earlier photomasks, demand was strong for use in the development of LTPS LCD panels and OLED panels.

Accordingly, the SK-Electronics Group posted consolidated net sales of ¥6,672 million, an increase of 12.7% year-on-year, operating income of ¥1,398 million, an increase of 42.0%, and ordinary income of ¥1,506 million, a rise of 54.3%. Meanwhile, net income attributable to owners of the parent totaled ¥1,046 million, a growth of 48.6%.

(2) Qualitative Explanation on Consolidated Financial Position

At the end of the first quarter of consolidated FYE September 2019, total assets came to ¥29,431 million, an increase of ¥674 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 ¥9,011 million, an increase of ¥117 million versus the end of the prior consolidated fiscal year. This mainly reflects a decline in income taxes payable but an increase in notes and accounts payable-trade.

Total net assets were ¥20,419 million, an increase of ¥557 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

We reiterate the earnings projections for the first half of consolidated FYE September 2019, which we disclosed in our FYE September 2018 Financial Report [Japan GAAP] (Consolidated) on November 12, 2018.

2. Quarterly Consolidated Financial Statements & Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: ¥ thousands)

	Prior consolidated fiscal year (FYE9/2018)	First Quarter FYE9/2019 (Ended December 31, 2018)
Assets		
Current assets		
Cash and deposits	7,214,123	8,867,508
Notes and accounts receivable - trade	7,236,815	5,618,768
Merchandise and finished goods	52,478	43,291
Work in process	402,226	552,333
Raw materials and supplies	1,714,420	2,048,337
Other	420,912	277,122
Allowance for doubtful accounts	-3,299	-2,331
Total current assets	17,037,677	17,405,029
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,394,212	3,298,255
Machinery, equipment and vehicles, net	4,431,685	3,818,345
Land	1,667,702	1,667,702
Construction in progress	952,032	2,011,386
Other, net	140,552	147,031
Total property, plant and equipment	10,586,184	10,942,721
Intangible assets		
Software	348,600	429,289
Other	596	534
Total intangible assets	349,196	429,824
Investments and other assets		
Other	783,838	785,429
Allowance for doubtful accounts	-100	-131,349
Total investments and other assets	783,738	654,079
Total non-current assets	11,719,120	12,026,625
Assets	28,756,797	29,431,655

(Unit: ¥ thousands)

	Prior consolidated fiscal year (FYE9/2018)	First Quarter FYE9/2019 (Ended December 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,213,194	4,790,371
Current portion of long-term loans payable	300,000	300,000
Income taxes payable	1,076,108	629,934
Allowance for bonuses to directors	85,000	—
Other	2,420,721	2,563,704
Total current liabilities	8,095,023	8,284,010
Non-current liabilities		
Long-term loans payable	750,000	675,000
Other	49,336	52,928
Total non-current liabilities	799,336	727,928
Total liabilities	8,894,360	9,011,938
Net assets		
Shareholders' equity		
Capital stock	4,109,722	4,109,722
Capital surplus	4,051,600	4,051,600
Retained earnings	11,277,069	12,144,259
Treasury shares	-800,478	-800,602
Total shareholders' equity	18,637,913	19,504,979
Other cumulative comprehensive income		
Valuation difference on available-for-sale securities	186,557	119,355
Foreign currency translation adjustment	514,604	269,896
Total other cumulative comprehensive income	701,162	389,252
Noncontrolling interests	523,361	525,484
Total net assets	19,862,437	20,419,716
Total liabilities and net assets	28,756,797	29,431,655

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

Quarterly Consolidated Statement of Income

Consolidated First Quarter

(Unit: ¥ thousands)

	First Quarter FYE9/2018 (Oct. 1, 2017 to Dec. 31, 2017)	First Quarter FYE9/2019 (Oct. 1, 2018 to Dec. 31, 2018)
Net sales	5,919,393	6,672,485
Cost of sales	4,214,242	4,415,256
Gross profit	1,705,150	2,257,229
Selling, general and administrative expenses	720,103	858,423
Operating Income	985,046	1,398,805
Non-operating income		
Interest income	2,026	5,089
Real estate rent	4,969	8,146
Gain on foreign exchange rate translations	—	95,905
Other	7,171	5,032
Total non-operating income	14,167	114,174
Non-operating expenses		
Interest expenses	2,256	1,643
Foreign exchange losses	16,271	—
Rent cost of real estate	2,600	4,395
Other	1,418	163
Total non-operating expenses	22,546	6,202
Ordinary Income	976,668	1,506,777
Extraordinary losses		
Loss on retirement of non-current assets	166	433
Total extraordinary losses	166	433
Income before income taxes	976,501	1,506,344
Income taxes - current	222,300	384,805
Income taxes - deferred	35,166	55,949
Total income taxes	257,467	440,754
Net Income	719,033	1,065,589
Net income attributable to the non-controlling interests	15,008	19,310
Net income attributable to owners of the parent	704,024	1,046,279

Quarterly Consolidated Statement of Comprehensive Income

Consolidated First Quarter

(Unit: ¥ thousands)

	First Quarter FYE9/2018 (Oct. 1, 2017 to Dec. 31, 2017)	First Quarter FYE9/2019 (Oct. 1, 2018 to Dec. 31, 2018)
Net Income	719,033	1,065,589
Other comprehensive income		
Valuation difference on available-for-sale securities	44,748	-67,202
Foreign currency translation adjustment	144,601	-261,894
Other comprehensive income	189,349	-329,096
Comprehensive Income	908,383	736,493
(Comprehensive income attributable to)		
Owners of parent	884,800	734,369
Non-controlling interests	23,582	2,123

(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)

(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."