Consolidated Financial Results for the Three Months Ended March 31, 2017 [Japanese GAAP]

May 11, 2017

Company name: W-SCOPE Corporation
Stock exchange listing: Tokyo Stock Exchange
Code number: 6619
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Scheduled date of filing quarterly securities report: May 12, 2017
Scheduled date of commencing dividend payments: ―
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Scheduled (for institutional investors and securities analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended March 31, 2017 (January 1, 2017 to March 31, 2017)

(1) Consolidated Operating Results (Cumulative) (% indicates changes from the previous corresponding period.)

	Sales volume		Operating profit		Ordinary profit		Net profit attributable to owners of parent	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2017	2,150	0.1	384	(52.7)	236	(68.7)	190	(65.8)
March 31, 2016	2,149	70.9	812	414.8	754	360.1	556	296.9

(Note) Comprehensive income: Three months ended March 31, 2017: ¥988 million [- %]
Three months ended March 31, 2016: ¥(72) million [- %]

	Net profit per share	Diluted net profit per share
Three months ended	Yen	Yen
March 31, 2017	6.14	5.82
March 31, 2016	19.60	18.61

(Note) The Company conducted a stock split of common stock on July 1, 2016 at the ratio of one to two shares. Net profit per share and diluted net profit per share are calculated based on the assumption that such stock split was implemented at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2017	33,118	21,623	65.1
As of December 31, 2016	30,394	20,670	67.8

(Reference) Equity: As of March 31, 2017: ¥21,575 million
As of December 31, 2016: ¥20,608 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2016	-	0.00	-	2.50	2.50
Fiscal year ending December 31, 2017	-				
Fiscal year ending December 31, 2017 (Forecast)		0.00	-	2.50	2.50

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2017 (January 1, 2017 to December 31, 2017)

(% indicates changes from the previous corresponding period.)

	Sales volume		Operating profit		Ordinary profit		Net profit attributable to owners of parent		Net profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	5,000	11.6	1,000	(32.5)	900	(37.2)	600	(45.0)	19.34
Full year	12,000	32.6	2,400	1.2	2,200	(11.3)	1,700	(12.6)	54.79

(Note) Revision to the financial results forecast announced most recently: No

*** Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No
New: - companies (company name), Excluded: - companies (company name)

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
1) Changes in accounting policies due to the revision of accounting standards: No
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No
4) Retrospective restatement: No

(4) Total number of issued shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
March 31, 2017: 31,111,600 shares
December 31, 2016: 30,956,600 shares

2) Total number of treasury shares at the end of the period:
March 31, 2017: 223 shares
December 31, 2016: 223 shares

3) Average number of shares during the period:
Three months ended March 31, 2017: 31,029,088 shares
Three months ended March 31, 2016: 28,415,037 shares

(Note) The Company conducted a stock split of common stock on July 1, 2016 at the ratio of one to two shares. Total number of issued shares (common shares) are calculated based on the assumption that such stock split was implemented at the beginning of the previous fiscal year.

* These quarterly financial results are outside the scope of quarterly review.

* Explanation of the proper use of financial results forecast and other notes

(Notes concerning forward-looking statements)

Forward-looking statements concerning financial forecasts contained in these documents are based on information the Company has currently obtained and certain assumptions judged to be reasonable. However, the Company makes no guarantee that these forecasts will be achieved. Actual results may differ significantly from the forecasts due to a variety of factors. For information concerning the assumptions used for financial forecasts and notes on the use of financial forecasts, please refer to "1. Qualitative Information on Quarterly Financial Results for the Period under Review (1) Explanation of Operating Results" on page 2 of the Appendix.

(Change in unit of presentation)

The amounts of the accounts presented in quarterly consolidated financial statements and other items were previously stated in thousands of yen, but starting from the first quarter and the three months ended March 31, 2017, are stated in millions of yen, as a change in unit. Accordingly, the amounts presented for the previous fiscal year and the three months ended March 31, 2016 are also stated in millions of yen to facilitate comparison.

(Method for acquiring supplementary briefing material on annual financial results and details of annual financial results briefing session)

The Company plans to hold a briefing session for institutional investors and securities analysts on Thursday, May 18, 2017. A video of this briefing session and briefing material on annual financial results used on that day will be posted on the Company's website promptly after the briefing session.

Table of Contents of the Appendix

1. Qualitative Information on Quarterly Financial Results for the Period under Review....2
(1) Explanation of Operating Results....2
(2) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information....3

2. Quarterly Consolidated Financial Statements and Primary Notes....4
(1) Quarterly Consolidated Balance Sheets....4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income....6
(3) Notes to the Quarterly Consolidated Financial Statements....8

3. Supplementary Information....9
(1) Sales....9
(2) Estimated Capital Investments....10

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

In the global economy during the three months ended March 31, 2017, while the US economy expanded moderately against a backdrop of a recovery in both domestic and overseas demand, the European economy recovered at an accelerated pace, driven by an increase in orders from the manufacturing industry. In China, stable growth continued despite a sense of slowdown in economic growth. Owing to the factors above, the global economy overall continued a moderate recovery.

Under these circumstances, the market scale of the W-SCOPE Group's (hereinafter, the "Group") core lithium-ion secondary battery separators business continued to expand. In consumer electronics applications that account for 60% of the entire market, annual growth in sales volume was stable at approximately 10%, mainly reflecting the expanded capacity of smartphone batteries and an increase in power system applications. EV (electric vehicles) related applications, which are showing accelerated growth, have expanded their market share to approximately 40%. In the Chinese market, although there was temporary sluggishness in demand during this period due to uncertainties about subsidy policies for EV and EV buses, demand showed a clear recovery trend following the announcement of the Action Plan for Promotion of Development of the Power Cell Industry for Electric Vehicles in March. In Europe, the US and Japan, demand for EV and hybrid vehicles (PHEV and HEV) is on an expansionary track in step with the environmental protection policies of each country, and demand is expected to grow substantially over the medium-term.

To cope with this market environment, the Company is reinforcing the production system in response to rising demand for ultra-thin film separators for smartphones and at the same time expanding sales volume of coating-type separators targeted at high-end power batteries applications and EV-related applications.

Sales volume in the Chinese market, the Group's main sales region, for the three months ended March 31, 2017 was ¥994 million, down 19.8% compared to the same period of the previous fiscal year, due to temporary sluggishness in demand for the EV-related market coinciding with the Chinese New Year. Sales in South Korea were ¥770 million, down 6.7% compared to the same period of the previous fiscal year, partly due to the slight impact of geopolitical risks on sales to the LG Group. Meanwhile, with respect to sales to Japanese customers, sales to Sony Energy Devices Group companies grew significantly by 2,427.8% to ¥368 million.

Due to these factors, during the three months ended March 31, 2017, both sales volume and unit prices remained steady. However, operating profit was reduced as a result of an increase in cost of goods sold mainly due to the appreciation of the Korean won against the yen, in addition to a higher depreciation burden of Production Lines #5-7, which were expanded last year, and higher expenses resulting from prior employment of personnel with an eye on expansion of facilities in the second half of this year.

Average exchange rates for the three months ended March 31, 2017 were ¥113.70 to the US dollar, an appreciation of approximately ¥1.51 compared to the same period of the previous fiscal year, 1,154.28 Korean won to the US dollar, an appreciation of 47.16 Korean won compared to the same period of the previous fiscal year and ¥98.5 for 1,000 Korean won, a depreciation of approximately ¥2.6 compared to the same period of the previous fiscal year.

In this environment, sales volume grew by ¥1 million or 0.1% compared to the same period of the previous fiscal year to ¥2,150 million. Meanwhile, operating profit decreased by ¥427 million or 52.7% compared to the same period of the previous fiscal year to ¥384 million, net profit before taxes and other adjustment decreased by ¥509 million or 67.6% compared to the same period of the previous fiscal year to ¥244 million, and net profit attributable to owners of parent decreased by ¥366 million or 65.8% compared to the same period of the previous fiscal year to ¥190 million.

(2) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The global economy for the six months ending June 30, 2017 and thereafter is expected to continue on a steady recovery trend.

In the separators market, significant expansion is expected to continue, driven mainly by stable growth of consumer electronics applications and an increase in applications, and an expansion of demand for EV-related applications.

Under such circumstances, the Group plans to stably expand sales to main customers by developing a system to increase production capacity, aiming at increased sales.

In consumer electronics applications for existing main customers, in addition to a stable increase in sales volume of existing projects, an increase in sales volume is expected due to entries into new projects, along with the anticipated commencement of business transactions with new customers.

As for EV-related applications, while efforts have been made to proceed with technical approvals for EV-related projects for the Company's existing customers, profitable sales of samples for battery performance assessment to new customers have commenced and sales activities are being conducted for the commencement of mass production and sale next year.

The production of batteries for consumer electronics applications had been concentrated in East Asia. However, with regard to battery production for EV-related applications, amid the progress in capital investments in battery production near the automobile production sites, it is now time for the Company to start considering the overseas operation of downstream processes.

Production Line #8 at the Company's subsidiary in South Korea is in the final stages of installation, and installation of Production Line #9 also has started. Both lines are expected to commence operation in the second half of this year. Furthermore, as for the expansion of coating facilities under way at Plant No. 3, operation of the new lines is scheduled to commence in late May and the fourth quarter ending December 31, 2017, with their production capacity expected to increase by approximately 400% compared to the end of the previous fiscal year.

The projected average exchange rates for the six months ending June 30, 2017 and thereafter as the premise for the financial results forecast are ¥100.0 to the US dollar, 1,050.0 Korean won to the US dollar, and ¥95.2 for 1,000 Korean won.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of December 31, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and bank deposits	10,508	9,259
Notes and accounts receivable – trade (net)	2,030	2,003
Merchandise and finished goods	659	1,014
Raw materials and supplies	247	290
Other	371	421
Total current assets	13,818	12,989
Fixed assets		
Tangible fixed assets		
Buildings and structures	3,341	3,470
Accumulated depreciation	(458)	(508)
Buildings and structures, net	2,883	2,962
Machinery, equipment and vehicles	13,817	14,523
Accumulated depreciation	(4,472)	(5,008)
Machinery, equipment and vehicles, net	9,345	9,515
Construction in progress	3,953	7,232
Other	245	268
Accumulated depreciation	(141)	(154)
Other, net	104	114
Total tangible fixed assets	16,286	19,823
Intangible fixed assets		
Other	52	51
Total intangible fixed assets	52	51
Investments and other assets		
Deferred tax assets	211	227
Other	26	26
Total investments and other assets	237	254
Total fixed assets	16,576	20,129
Total assets	30,394	33,118

(Million yen)

	As of December 31, 2016	As of March 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	68	69
Short-term debt	100	100
Current portion of long-term debt	1,317	1,317
Accounts payable - other	612	865
Income taxes payable	397	274
Deferred tax liabilities	135	105
Other	104	117
Total current liabilities	2,737	2,850
Fixed liabilities		
Long-term debt	6,628	8,223
Net defined benefit liability	184	238
Deferred tax liabilities	0	0
Other	174	183
Total fixed liabilities	6,986	8,645
Total liabilities	9,724	11,495
Net assets		
Shareholders' equity		
Capital	7,633	7,661
Capital surplus	7,579	7,607
Retained earnings	4,132	4,245
Treasury shares	(0)	(0)
Total shareholders' equity	19,344	19,513
Accumulated other comprehensive income		
Foreign currency translation adjustment	1,263	2,061
Total accumulated other comprehensive income	1,263	2,061
Stock warrants	61	47
Total net assets	20,670	21,623
Total liabilities and net assets	30,394	33,118

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three months ended March 31

(Million yen)

	For the three months ended March 31, 2016	For the three months ended March 31, 2017
Sales volume	2,149	2,150
Cost of goods sold	1,083	1,440
Gross profit	1,065	710
Selling, general and administrative expenses	253	325
Operating profit	812	384
Non-operating revenue		
Interest income	1	1
Subsidy income	57	45
Other	0	7
Total non-operating revenue	59	54
Non-operating expenses		
Interest expenses	8	11
Foreign exchange losses	104	182
Commission fee	3	8
Other	0	0
Total non-operating expenses	117	202
Ordinary profit	754	236
Extraordinary profit		
Gain on reversal of stock warrants	-	8
Total extraordinary profit	-	8
Net profit before taxes and other adjustment	754	244
Income taxes	197	53
Net profit	556	190
Net profit attributable to non-controlling interests	-	-
Net profit attributable to owners of parent	556	190

Quarterly Consolidated Statements of Comprehensive Income

Three months ended March 31

(Million yen)

	For the three months ended March 31, 2016	For the three months ended March 31, 2017
Net profit	556	190
Other comprehensive income		
Foreign currency translation adjustment	(629)	797
Total other comprehensive income	(629)	797
Comprehensive income	(72)	988
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(72)	988
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes in the case of significant changes in shareholders' equity)

There is no relevant information.

(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by first reasonably estimating the effective tax rate after applying tax effect accounting against net profit before taxes and other adjustment for the current fiscal year, and then multiplying net profit before taxes and other adjustment by the estimated effective tax rate.

In case it is impossible to reasonably estimate the effective tax rate, tax expenses are calculated in a manner similar to the calculation of tax expenses for the fiscal year. Deferred tax assets and deferred tax liabilities are recorded on the Quarterly Consolidated Balance Sheets after assessing recoverability and other factors.

(Additional information)

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

Starting from the three month ended March 31, 2017, the Company has applied the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016).

3. Supplementary Information

(1) Sales

(i) Sales

Sales for the three months ended March 31, 2017 were as follows.

Business segment	For the three months ended March 31, 2017	
	Sales amount (Million yen)	Y-o-Y ratio (%)
Lithium-ion secondary battery separators	2,150	100.1
Total	2,150	100.1

(Notes) 1. Statement regarding sales associated with segment information is omitted, as the Company and its consolidated subsidiaries comprise a single segment of lithium-ion secondary battery separators business.

2. Sales to major customers and ratio of such sales to total sales were as follows.

Customer	For the three months ended March 31, 2016		For the three months ended March 31, 2017	
	Sales amount (Million yen)	Ratio (%)	Sales amount (Million yen)	Ratio (%)
LG Group	762	35.5	724	33.7
Dongguan Xuran Electronics Co., Ltd.	821	38.2	644	30.0
Sony Energy Devices Group	—	—	361	16.8

3. The amounts indicated above do not include consumption taxes and other taxes.
4. Information on sales to Sony Energy Devices Group for the three months ended March 31, 2016 is omitted as the ratio of such sales to total sales was less than 10%.
5. LG Group includes LG Chem, Ltd. Sony Energy Devices Group includes Sony Electronics (Wuxi) Co., Ltd. and Sony Electronics (Singapore) Pte. Ltd.

(2) Estimated Capital Investments

Estimated capital investments

Name of company	Name of office (Location)	Details of the facilities	Scheduled investment amount		Financing method	Commence-ment date	Scheduled completion date	Increase in capacity after completion
			Total (Million yen)	Amount already paid (Million yen)				
W-SCOPE KOREA CO., LTD.	Head Office (Cheonju-si, Chungbuk, Republic of Korea)	Production Lines #8 and #9	5,109	4,835	Own funds and bank borrowings	February 2016	During 2017	Approx. 60% increase in production
W-SCOPE KOREA CO., LTD.	Head Office (Cheonju-si, Chungbuk, Republic of Korea)	Coating Production Lines #3 and #4	1,223	720	Own funds and bank borrowings	September 2016	During the second quarter of FY2017	Approx. 200% increase in processing production
W-SCOPE KOREA CO., LTD.	Head Office (Cheonju-si, Chungbuk, Republic of Korea)	Coating Production Lines #5 and #6	815	41	Own funds and bank borrowings	February 2017	During the fourth quarter of FY2017	Approx. 200% increase in processing production
W-SCOPE CHUNGJU PLANT CO., LTD.	Head Office (Chungju-si, Chungbuk, Republic of Korea)	Production Lines #10 and #11	7,984	977	Own funds, fund for capital increase and bank borrowings	October 2016	During 2018	Approx. 60% increase in production

(Notes) 1. The amounts indicated above do not include consumption taxes and other taxes.
2. Statement by segment is omitted, as the Company and its consolidated subsidiaries comprise a single segment of lithium-ion secondary battery separators business.
3. “Increase in capacity after completion” is stated relative to the end of the previous fiscal year.