Consolidated Financial Results for the Three Month Ended March 31, 2018 [Japanese GAAP]

May 10, 2018

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 11, 2018
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, 2018 (January 1, 2018 to March 31, 2018)

(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, 2018	2,136	(0.7)	(172)	-	(238)	-	(175)	-
March 31, 2017	2,150	0.1	384	(52.7)	236	(68.7)	190	(65.8)

(Note) Comprehensive income: Three Months ended March 31, 2018: ¥(1,942) million [- %]
Three Months ended March 31, 2017: ¥988 million [- %]

	Net profit per share	Diluted net profit per share
Three months ended	Yen	Yen
March 31, 2018	(5.61)	-
March 31, 2017	6.14	5.82

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2018	47,125	20,919	44.3
As of December 31, 2017	46,674	22,948	49.1

(Reference) Equity: As of March 31, 2018: ¥20,886 million
As of December 31, 2017: ¥22,905 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, 2017	-	0.00	-	2.50	2.50
Fiscal year ending December 31, 2018	-				
Fiscal year ending December 31, 2018 (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, 2018 (January 1, 2018 to December 31, 2018)

(% 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	11.3	0	(100.0)	(50)	-	(120)	-	(3.86)
Full year	14,000	47.1	700	154.7	500	-	400	-	12.85

(Note) Revision to the forecast for dividends 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, 2018: 31,199,600 shares
December 31, 2017: 31,197,600 shares

2) Total number of treasury shares at the end of the period:
March 31, 2018: 223 shares
December 31, 2017: 223 shares

3) Average number of shares during the period:
Three months ended March 31, 2018: 31,198,066 shares
Three months ended March 31, 2017: 31,029,088 shares

* These quarterly financial results are outside the scope of quarterly review by a certified public accountant or corporate auditor.

* 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.

(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 Friday, May 11, 2018. 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, 2018, a number of sources of concern have started to emerge in various countries and regions, despite continued solid economic expansion on the whole. In the U.S., there are concerns about future economic impact resulting from changes in trade policies. In the Euro zone, although strong economic expansion led by capital investment continues, such expansion is showing signs of a slowdown. In China, despite the slowdown of automobile sales and concerns about impact from the U.S. trade policies change, the expansion of domestic demand fueled by an increase in personal income is driving growth.

Under these circumstances, expansion is continuing in the lithium-ion battery market due to growth in automotive applications in China, and while in consumer electronics applications (hereinafter, "CE applications") there is a sense of stagnation in the pace of growth in mobile device applications, cylindrical batteries for high power applications and pouch-type batteries for IT applications are certainly on an expansionary track.

Automotive applications accounted for roughly 25% of the Group's sales volume for the three months ended March 31, 2018 following a decrease due to seasonal factors in the sales composition ratio of automotive applications in China. Meanwhile, the sales composition ratio for CE applications was approximately 75% due to significant growth in demand for cylindrical batteries for high power applications from the Company's main customers in other regions.

Owing to continued high levels of inventories of electric vehicles at the end of last year in the Chinese market, battery production of some of the Company's main customers was sluggish compared to last year. As a result, sales volume amounted to ¥774 million, down 22.2% compared to the same period of the previous fiscal year. Meanwhile, demand from EVE Energy Co., Ltd. rose sharply because of increased transactions of separators for cylindrical batteries for automotive applications since the year before last. In the South Korean market, sales volume grew substantially to ¥1,047 million, up 35.9%, thanks to increased demand for cylindrical batteries for the LG Group. In addition, with the start of order receipts for CE cylindrical applications from new customers, the Group is rushing to establish a mass production system to cope with project expansion in the future. Sales volume to Japanese customers was ¥314 million, down 14.7%, due to sluggish demand for smartphone applications.

Due to these factors, during the three months ended March 31, 2018, both sales volume and unit prices were unchanged from the same period of the previous fiscal year. Regarding operating profit, operating loss was recorded due to an increase in cost of goods sold mainly due to the appreciation of the Korean won against the yen, in addition to increases in depreciation and personnel expenses, as well as costs associated with the launch of production by W-SCOPE CHUNGJU PLANT CO., LTD. (hereinafter, "WCP"), a new production subsidiary.

As for the status of production, for Lines #8 and #9 of the Company's manufacturing subsidiary W-SCOPE KOREA CO., LTD. which started operation in the second half of last year, the Group continues sample production for approval of lines for main customers while at the same time continuing mass shipment to some customers. Furthermore, preparations are being made at WCP for commencement of mass production upon completion of equipment for Lines #10 and #11.

Average exchange rates for the three months ended March 31, 2018 were ¥108.42 to the US dollar, an appreciation of approximately ¥5.28 compared to the same period of the previous fiscal year, 1,072.29 Korean won to the US dollar, an appreciation of 81.99 Korean won compared to the same period of the previous fiscal year, and ¥101.1 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 decreased by ¥14 million or 0.7% compared to the same period of the previous fiscal year to ¥2,136 million. Meanwhile, operating profit decreased by ¥556 million compared to the same period of the previous fiscal year to operating loss of ¥172 million (operating profit of ¥384 million in the same period of the previous fiscal year), net profit before taxes and other adjustment decreased by ¥474 million to net loss before taxes and other adjustment of ¥229 million (net profit before taxes and other adjustment of ¥244 million in the same period of the previous fiscal year), and net profit attributable to owners of parent decreased by ¥365 million to net loss attributable to owners of parent of ¥175 million (net profit attributable to owners of parent of ¥190 million in the same period of the previous fiscal year).

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

The global economy for the six months ending June 30, 2018 and thereafter is expected to continue on a path of solid expansion.

Similarly, in the lithium-ion battery and separators market, battery production for Chinese electric vehicles is expected to recover toward the second half, and an increase in battery demand in preparation for full-scale increased production of electric vehicles by European automobile manufacturers from 2019 onward, as well as favorable demand for CE high power cylindrical batteries, is expected to continue.

Regarding projects for Chinese electric vehicles, supply volume for EVE is expected to continue stable growth and, at the same time, sales via Xuran, the Company's distributor, are on a recovery trend. Furthermore, product assessment is also making steady progress at South Korean and Japanese battery supply manufacturers for electric vehicles in Europe and the US, and full-scale sales are expected to begin from next year.

In CE applications, plans to increase production of high power cylindrical batteries are being promoted to the Company's main customers and new customers. As such, supply volume of separators from the Company is expected to increase substantially in the second half.

In preparation for such increase in demand, mass production is scheduled to commence in Lines #10 and #11 at WCP in the second quarter.

A plan is also under way to install Lines #12 and #13 at WCP with a view to commencing operation in the second half of 2019. Furthermore, a decision has been made to invest in the expansion of Coating Production Lines #7-10 in response to an increase in supply of separators for higher energy density battery design, with operation expected to commence in the first half of 2019.

The projected average exchange rates for the six months ending June 30, 2018 and thereafter as the premise for the financial results forecast are ¥108.0 to the US dollar, 1,100.0 Korean won to the US dollar, and ¥98.2 for 1,000 Korean won.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of December 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and bank deposits	10,529	10,585
Notes and accounts receivable – trade	2,450	2,519
Merchandise and finished goods	1,036	1,570
Raw materials and supplies	397	372
Other	571	581
Total current assets	14,985	15,629
Fixed assets		
Tangible fixed assets		
Buildings and structures	5,766	5,513
Accumulated depreciation	(677)	(696)
Buildings and structures, net	5,088	4,816
Machinery, equipment and vehicles	22,466	22,501
Accumulated depreciation	(6,466)	(6,684)
Machinery, equipment and vehicles, net	16,000	15,816
Construction in progress	10,057	10,229
Other	393	413
Accumulated depreciation	(196)	(199)
Other, net	196	213
Total tangible fixed assets	31,343	31,075
Intangible fixed assets		
Other	72	112
Total intangible fixed assets	72	112
Investments and other assets		
Deferred tax assets	237	270
Other	36	38
Total investments and other assets	273	308
Total fixed assets	31,688	31,496
Total assets	46,674	47,125

(Million yen)

	As of December 31, 2017	As of March 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	127	119
Short-term debt	5,854	5,325
Current portion of long-term debt	2,067	2,817
Accounts payable - other	808	714
Income taxes payable	18	6
Deferred tax liabilities	115	93
Other	103	122
Total current liabilities	9,094	9,197
Fixed liabilities		
Long-term debt	14,060	16,406
Net defined benefit liability	182	228
Deferred tax liabilities	0	0
Other	387	372
Total fixed liabilities	14,631	17,008
Total liabilities	23,725	26,205
Net assets		
Shareholders' equity		
Capital	7,676	7,676
Capital surplus	7,622	7,622
Retained earnings	3,934	3,681
Treasury shares	(0)	(0)
Total shareholders' equity	19,232	18,980
Accumulated other comprehensive income		
Foreign currency translation adjustment	3,673	1,906
Total accumulated other comprehensive income	3,673	1,906
Stock warrants	42	33
Total net assets	22,948	20,919
Total liabilities and net assets	46,674	47,125

(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, 2017	For the three months ended March 31, 2018
Sales volume	2,150	2,136
Cost of goods sold	1,440	1,876
Gross profit	710	259
Selling, general and administrative expenses	325	432
Operating profit (loss)	384	(172)
Non-operating revenue		
Interest income	1	6
Subsidy income	45	31
Other	7	3
Total non-operating revenue	54	41
Non-operating expenses		
Interest expenses	11	47
Foreign exchange losses	182	35
Commission fee	8	22
Other	0	1
Total non-operating expenses	202	107
Ordinary profit (loss)	236	(238)
Extraordinary profit		
Gain on reversal of stock warrants	8	8
Total extraordinary profit	8	8
Net profit (loss) before taxes and other adjustment	244	(229)
Income taxes	53	(54)
Net profit (loss)	190	(175)
Net profit attributable to non-controlling interests	-	-
Net profit (loss) attributable to owners of parent	190	(175)

Quarterly Consolidated Statements of Comprehensive Income

Three months ended March 31

(Million yen)

	For the three months ended March 31, 2017	For the three months ended March 31, 2018
Net profit (loss)	190	(175)
Other comprehensive income		
Foreign currency translation adjustment	797	(1,767)
Total other comprehensive income	797	(1,767)
Comprehensive income	988	(1,942)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	988	(1,942)
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.

3. Supplementary Information

(1) Sales

Sales

Sales for the three months ended March 31, 2018 were as follows.

Business segment	For the three months ended March 31, 2018	
	Sales amount (Million yen)	Y-o-Y ratio (%)
Lithium-ion secondary battery separators	2,136	99.3
Total	2,136	99.3

(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, 2017		For the three months ended March 31, 2018	
	Sales amount (Million yen)	Ratio (%)	Sales amount (Million yen)	Ratio (%)
LG Group	724	33.7	1,009	47.3
Dongguan Xuran Electronics Co., Ltd.	644	30.0	470	22.0
Tohoku Murata Manufacturing Group	361	16.8	290	13.6
EVE Energy Co., Ltd.	–	–	250	11.7

3. The amounts indicated above do not include consumption taxes and other taxes.
4. LG Group includes LG Chem, Ltd. Tohoku Murata Manufacturing Group includes Murata Energy Device Wuxi Co., Ltd. and Murata Energy Device Singapore Pte. Ltd.
5. Information on sales to EVE Energy Co., Ltd. for the three months ended March 31, 2017 is omitted as the ratio of such sales to total sales was less than 10%.

(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)	Coating Production Lines #5 and #6	851	803	Own funds and bank borrowings	February 2017	During the first half of 2018	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	9,036	8,213	Own funds, fund for capital increase and bank borrowings	October 2016	During the first half of 2018	Approx. 60% increase in production
W-SCOPE CHUNGJU PLANT CO., LTD.	Head Office (Chungju-si, Chungbuk, Republic of Korea)	Production Lines #12 and #13	7,971	1,162	Own funds, fund for capital increase and bank borrowings	September 2017	During the second half of 2019	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.
4. The major new facility whose establishment was scheduled at the end of the previous fiscal year and has been completed is as follows:

Name of company	Name of office (Location)	Details of the facilities	Investment amount (Million yen)	Completion date	Increase in capacity after completion
W-SCOPE KOREA CO., LTD.	Head Office (Cheonju-si, Chungbuk, Republic of Korea)	Coating Production Lines #3 and #4	1,763	March 2018	Approx. 200% increase in processing production

5. “Increase in capacity after completion” is stated relative to the end of the previous fiscal year.