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Stock Exchange Listing: Tokyo Stock Exchange Section 1
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Notice of Difference between FY12/2018 First-Half Forecast and Actual Results, and Revision of Full-Year Guidance

W-Scope Corporation announces that there is difference between the earnings forecast and the actual results announced today for the period between 1 January 2018 and 30 June 2018, as shown on the table below. Given the results for the first 6 months of current fiscal year, full-year earnings guidance announced as of 10 May 2018 is also revised as below;

Difference between forecast and actual results for the period between 1 January 2018 and 30 June 2018

	Revenue	Operating profit	Recurring profit	Net Profit attributable to owners of parent	EPS for the period
	(¥million)	(¥million)	(¥million)	(¥million)	(¥)
Previous guidance (A)	5,000	0	△50	△120	△3. 86
Revised guidance (B)	4,227	△875	△632	△520	△16. 68
Difference (B-A)	△772	△875	△582	△400	
Difference (%)	△15.4	—	—	—	
Earnings as of end of 2Q 2017	4,490	355	165	139	4.48

Revision for the full-year guidance for the period between 1 January 2018 and 31 December 2018

	Revenue	Operating profit	Recurring profit	Net Profit attributable to owners of parent	EPS for the period
	(¥million)	(¥million)	(¥million)	(¥million)	(¥)
Previous guidance (A)	14,000	700	500	400	12.85
Revised guidance (B)	9,100	△2,400	△2,200	△2,100	△67.25
Difference (B-A)	△4,900	△3,100	△2,700	△2,500	
Difference (%)	△35.0	△442.9	△540.0	△625.0	
Earnings as of end of FY2017	9,517	274	△108	△119	△3. 85

< Reasons for revision >

The EV battery market in China, which is our core market, entered reorganisation phase in 1H 2018. Traditionally, our main customers in China continued to supply phosphoric lithium ion batteries to meet demand from EV buses and other automobile applications. However, Chinese government's subsidy policy was largely adjusted to favour battery technology that offers longer cruise distance per charge, having led demand for phosphoric lithium ion battery to sharply drop. Such a change in the subsidy policy encourages each battery manufacturers to drastically shift design to ternary batteries. Due to surge in price of cobalt, the main material for positive electrode of ternary battery, our customers are forced to develop batteries with positive electrode with low cobalt ratio.

On the positive note, introduction of large-scale production lines has been progressing in line with our roadmap. Sample shipment to several battery makers in Japan and Korea is ongoing. Volume shipment for consumer application batteries has already started in 1H this year and valuation for EV battery separator has been progressing. Valuation by each client turns out positive. We continue to invest on large-scale production facilities with careful observation on client's future demand.

Operating profit guidance is revised down for both first half and full-year. Due to large shortfall in sales, cost increases such as depreciation cost at W-Scope Korea Co., LTD., start-up cost and continuous sample shipment cost at W-SCOPE SHUNGIU PLANT CO., LTD cannot be absorbed, pushing operating profit below break-even level. Furthermore, COGS went up in 1H due to stronger Korean Won against US dollar.

< Outlook for 3Q onwards >

Whilst proactively supporting our existing clients' new design in China, cash flow from Chinese battery business tends to become worse. We aim to continue our support while controlling sales receivables. As a result, sales recovery in short-term is unlikely. Rather, we aim to construct solid co-support network with our clients in China over the medium-term.

As for business with Japanese clients, sales are expected to recover from the second half thanks to growing demand for cylindrical batteries. Volume shipment associated with EV projects implemented by OEM makers in US and Europe is expected to commence from the middle of 2019, potentially leading to steady sales growth and return to profitability.

Under the above explained circumstances, our sales in China are likely to largely fall short of initial JPY5.7 billion and revised down to JPY2.2 billion in FY2018. In addition, sales to smartphone batteries which were expected to contribute to large part of our sales this year need to be revised down by JPY1.4 billion for some clients in Japan revised down their production plan. According to these circumstances, we have decided to revise operating loss to JPY2.4 billion, as well as ordinary loss and net loss, due to the decrease of sales volume, which we have expected operating profit to be JPY700 million, at the beginning of FY2018 forecast plan.

For reasons explained above, official earnings guidance for fiscal year December 2018 is revised.

FOREX rates for the second half of this fiscal year are; JPY108/US$, KRW1,110/US$ and JPY98.2/KRW1000.

Disclaimer regarding earnings guidance

Earnings guidance was made based on currently available information. The actual results may differ from the guidance due to various factors that may occur in the future.