Consolidated Financial Results for the Six Months Ended June 30, 2018 [Japanese GAAP]

August 9, 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: August 10, 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 Six Months Ended June 30, 2018 (January 1, 2018 to June 30, 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	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2018	4,227	(5.9)	(875)	-	(632)	-	(520)	-
June 30, 2017	4,490	0.2	355	(76.0)	165	(88.5)	139	(87.2)

(Note) Comprehensive income: Six Months ended June 30, 2018: ¥(2,858) million [- %]
Six Months ended June 30, 2017: ¥518 million [- %]

	Net profit per share	Diluted net profit per share
Six months ended	Yen	Yen
June 30, 2018	(16.68)	-
June 30, 2017	4.48	4.30

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2018	48,997	20,034	40.8
As of December 31, 2017	46,674	22,948	49.1

(Reference) Equity: As of June 30, 2018: ¥20,002 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)			-	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
Full year	9,100	(4.4)	(2,400)	-	(2,200)	-	(2,100)	-	(67.25)

(Note) Revision to the financial results forecast announced most recently: Yes

*** 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):
June 30, 2018: 31,299,600 shares
December 31, 2017: 31,197,600 shares

2) Total number of treasury shares at the end of the period:
June 30, 2018: 223 shares
December 31, 2017: 223 shares

3) Average number of shares during the period:
Six months ended June 30, 2018: 31,228,007 shares
Six months ended June 30, 2017: 31,081,399 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 Thursday, August, 9 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.

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

(1) Explanation of Operating Results

In the global economy during the six months ended June 30, 2018, the U.S. economy remained strong with a real growth rate exceeding 4%, despite uncertainties stemming from the Trump administration's trade policies. Similarly, in Europe, solid economic expansion continued as the decline in GDP was stemmed in Germany and France. Meanwhile, although China shifted to monetary policy management more conscious of economic stability, growth in consumption and investment contracted, and uncertainties remain as to how production, which exhibited overseas demand-led growth, will be affected by U.S. trade policies in the future.

In the W-SCOPE Group's (hereinafter, the "Group") core lithium-ion secondary battery separators business, major changes have taken place in the environment of the Chinese automobile market, which leads the global electric vehicle market, indicating a decrease in sales in the short term. This can be attributed to a shift in focus from safety in the design of batteries eligible for subsidies to the maximum cruising range per charge for electric vehicles, as well as a sharp increase in the price of cobalt, a cathode material indispensable for high energy density battery design. Although the iron phosphate battery market had continued to expand in the past, customer companies were forced to quickly engage in low cobalt ternary battery design, which involves a high level of technical difficulty, due to a major shift in the allocation of subsidies to ternary high energy density products for the purpose of enhancing the car cruising range performance, as well as a surge in cobalt prices. Accordingly, these companies still need a lengthy period for product design.

As for South Korean and Japanese battery manufacturers, the supply of batteries to OEMs of European and U.S. EVs, which is expected to become full-scale from the second half of 2019, has gradually started, with each company continuing to expand its production capacity. In the battery market for consumer electronics, even though significant growth in demand for smartphone applications was not observed, demand for high-end cylindrical batteries for the power tools and cordless household appliance markets continues to expand. Under this market environment, the Company continues to improve its production lines and manufacturing environment in the plants, with a view to pursuing separators with higher quality and stability that ensure safety of lithium-ion batteries. In addition, the Company is focusing on further improvement in productivity to reduce production costs. Furthermore, in preparation for the anticipated full-scale mass production for EV manufacturers of the Company's customers from 2020 and onward, the Company will systematically continue to expand separator deposition lines and coating lines.

Sales volume in the Chinese market, the Group's main sales region, for the six months ended June 30, 2018 was ¥1,266 million, down 38.8% compared to the same period of the previous fiscal year. This decrease was due to a drastic transformation of the EV-related market during the six months ended June 30, 2018, resulting in a sharp decline in production by the Company's existing customers to which the Company had continued the large-scale supply of iron phosphate batteries for applications such as EV buses in the short term. In South Korea, growth in demand for high-end consumer product applications was observed, and sales to the LG Group and new customers increased to ¥2,262 million, up 42.6% compared to the same period of the previous fiscal year. Meanwhile, sales to Japanese customers amounted to ¥699 million, down 12.0% compared to the same period of the previous fiscal year, due to weak sales to Tohoku Murata Manufacturing Group companies. As a result, during the six months ended June 30, 2018, sales volume decreased slightly from the same period of the previous fiscal year. As for operating profit, the Group proceeded with capital investments in preparation for the expansion of EV demand from the second half of 2019. During the past year, four deposition lines and two coating lines started operations, thereby increasing fixed costs such as depreciation. In addition, with the commencement of production at W-SCOPE CHUNGJU PLANT CO., LTD., the second production subsidiary,

operating costs for the new company and costs associated with starting operation were incurred. Furthermore, as the Group continues sample production for approval of lines for main customers and was substantially affected by a decrease in orders from the Chinese and Japanese markets, operating profit fell significantly from the same period of the previous fiscal year. In addition, 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 US dollar and yen.

Average exchange rates for the six months ended June 30, 2018 were ¥108.72 to the US dollar, an appreciation of approximately ¥3.66 compared to the same period of the previous fiscal year, 1,075.40 Korean won to the US dollar, an appreciation of 66.66 Korean won compared to the same period of the previous fiscal year, and ¥101.1 for 1,000 Korean won, a depreciation of approximately ¥2.7 compared to the same period of the previous fiscal year.

In this environment, sales volume decreased by ¥263 million or 5.9% compared to the same period of the previous fiscal year to ¥4,227 million. Meanwhile, operating profit decreased by ¥1,231 million compared to the same period of the previous fiscal year to operating loss of ¥875 million (operating profit of ¥355 million in the same period of the previous fiscal year), net profit before taxes and other adjustment decreased by ¥795 million to net loss before taxes and other adjustment of ¥622 million (net profit before taxes and other adjustment of ¥173 million in the same period of the previous fiscal year), and net profit attributable to owners of parent decreased by ¥660 million to net loss attributable to owners of parent of ¥520 million (net profit attributable to owners of parent of ¥139 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 ended June 30, 2018 and thereafter is expected to steadily continue stable expansion in general, despite uncertainties related to changes in trade policies, mainly in the U.S.

During the third and fourth quarters of this fiscal year, sales volume is expected to fall below the previous year’s level due to an anticipated delay in the recovery of demand from Chinese and Japanese customers until 2019, despite an expected steady growth in sales mainly to the LG Group in South Korea. Meanwhile, the Group has been continuing capital investments in preparation for a surge in EV demand from the second half of 2019, and operating profit is expected to decline significantly due to an increase in fixed costs, including depreciation and personnel expenses.

In the separators market, demand for EV batteries for China and Europe is expected to grow substantially, as battery manufacturers make capital investments with an eye on EV demand in 2019 and thereafter. Furthermore, in Japan and the U.S., the continued expansion of battery demand for cars exported to China (including local manufacturers) is expected. In the medium term, the demand for electricity storage systems, as well as markets in Southeast Asia and West Asia, are expected to expand.

Under these circumstances, the Group will strengthen sales activities toward battery manufacturers with advanced design technologies in the Chinese market in an effort to further strengthen relations with customers in South Korea and Japan, where demands for EV and other applications have rapidly increased.

Regarding the Company production status, the Company has continued sample shipments from the newly installed large-scale production lines (Production Lines #8-11) and has obtained approval for products and production lines from some customers. In this manner, the Company has promoted preparation for full-fledged mass production from the next year.

In addition, in preparation for a further increase in demand, the Company has been preparing to commence operation of Production Lines #12 and #13 at W-SCOPE CHUNGJU PLANT CO., LTD. next year.

The projected average exchange rates for the second half of the fiscal year ending December 31, 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 June 30, 2018
Assets		
Current assets		
Cash and bank deposits	10,529	11,624
Notes and accounts receivable – trade	2,450	2,223
Merchandise and finished goods	1,036	1,744
Raw materials and supplies	397	363
Other	571	419
Total current assets	14,985	16,375
Fixed assets		
Tangible fixed assets		
Buildings and structures	5,766	7,754
Accumulated depreciation	(677)	(762)
Buildings and structures, net	5,088	6,991
Machinery, equipment and vehicles	22,466	22,287
Accumulated depreciation	(6,466)	(7,163)
Machinery, equipment and vehicles, net	16,000	15,123
Construction in progress	10,057	9,763
Other	393	493
Accumulated depreciation	(196)	(216)
Other, net	196	276
Total tangible fixed assets	31,343	32,154
Intangible fixed assets		
Other	72	134
Total intangible fixed assets	72	134
Investments and other assets		
Deferred tax assets	237	294
Other	36	38
Total investments and other assets	273	332
Total fixed assets	31,688	32,621
Total assets	46,674	48,997

(Million yen)

	As of December 31, 2017	As of June 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	127	110
Short-term debt	5,854	5,226
Current portion of long-term debt	2,067	3,317
Accounts payable - other	808	730
Income taxes payable	18	11
Deferred tax liabilities	115	83
Other	103	147
Total current liabilities	9,094	9,628
Fixed liabilities		
Long-term debt	14,060	18,652
Net defined benefit liability	182	249
Deferred tax liabilities	0	0
Other	387	432
Total fixed liabilities	14,631	19,334
Total liabilities	23,725	28,962
Net assets		
Shareholders' equity		
Capital	7,676	7,692
Capital surplus	7,622	7,638
Retained earnings	3,934	3,335
Treasury shares	(0)	(0)
Total shareholders' equity	19,232	18,666
Accumulated other comprehensive income		
Foreign currency translation adjustment	3,673	1,336
Total accumulated other comprehensive income	3,673	1,336
Stock warrants	42	31
Total net assets	22,948	20,034
Total liabilities and net assets	46,674	48,997

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six months ended June 30

(Million yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Sales volume	4,490	4,227
Cost of goods sold	3,483	4,102
Gross profit	1,007	125
Selling, general and administrative expenses	651	1,001
Operating profit (loss)	355	(875)
Non-operating revenue		
Interest income	2	8
Foreign exchange gains	-	286
Subsidy income	45	75
Gain on donation of assets	27	3
Other	2	2
Total non-operating revenue	77	375
Non-operating expenses		
Interest expenses	29	95
Foreign exchange losses	221	-
Commission fee	16	35
Other	1	2
Total non-operating expenses	268	132
Ordinary profit (loss)	165	(632)
Extraordinary profit		
Gain on reversal of stock warrants	8	10
Total extraordinary profit	8	10
Net profit (loss) before taxes and other adjustment	173	(622)
Income taxes	34	(101)
Net profit (loss)	139	(520)
Net profit attributable to non-controlling interests	-	-
Net profit (loss) attributable to owners of parent	139	(520)

Quarterly Consolidated Statements of Comprehensive Income

Six months ended June 30

(Million yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Net profit (loss)	139	(520)
Other comprehensive income		
Foreign currency translation adjustment	379	(2,337)
Total other comprehensive income	379	(2,337)
Comprehensive income	518	(2,858)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	518	(2,858)
Comprehensive income attributable to non-controlling interests	-	-

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Cash flows from operating activities		
Net profit (loss) before taxes and other adjustment	173	(622)
Depreciation	800	1,330
Increase (decrease) in allowance for doubtful accounts	11	(3)
Interest and dividends income	(2)	(8)
Interest expenses	29	95
Foreign exchange losses (gains)	(9)	(83)
Gain on reversal of stock warrants	(8)	(10)
Decrease (increase) in notes and accounts receivable - trade	222	157
Decrease (increase) in inventories	(223)	(786)
Increase (decrease) in notes and accounts payable - trade	31	(8)
Increase (decrease) in accounts payable - other	(3)	(31)
Other, net	(71)	(36)
Subtotal	950	(8)
Interest and dividend income received	2	8
Interest expenses paid	(22)	(81)
Income taxes paid	(442)	(9)
Net cash provided by (used in) operating activities	489	(90)
Cash flows from investing activities		
Purchase of tangible fixed assets	(6,351)	(4,076)
Other, net	(12)	(78)
Net cash provided by (used in) investing activities	(6,363)	(4,154)
Cash flows from financing activities		
Net increase (decrease) in short-term debt	3,240	(300)
Proceeds from long-term debt	4,000	6,500
Repayment of long-term debt	(658)	(658)
Proceeds from exercise of share options	57	33
Cash dividends paid	(77)	(77)
Net cash provided by (used in) financing activities	6,561	5,496
Effect of exchange rate change on cash and cash equivalents	103	(156)
Net increase (decrease) in cash and cash equivalents	790	1,094
Cash and cash equivalents at beginning of period	10,508	10,529
Cash and cash equivalents at end of period	11,299	11,624

(4) 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 six months ended June 30, 2018 were as follows.

Business segment	For the six months ended June 30, 2018	
	Sales amount (Million yen)	Y-o-Y ratio (%)
Lithium-ion secondary battery separators	4,227	94.1
Total	4,227	94.1

(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 six months ended June 30, 2017		For the six months ended June 30, 2018	
	Sales amount (Million yen)	Ratio (%)	Sales amount (Million yen)	Ratio (%)
LG Group	1,527	34.0	2,060	48.7
Dongguan Xuran Electronics Co., Ltd.	1,443	32.1	674	15.9
Tohoku Murata Manufacturing Group	780	17.4	657	15.5
EVE Energy Co., Ltd.	–	–	490	11.6

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 six months ended June 30, 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	999	836	Own funds and bank borrowings	February 2017	During the second half of 2018	Approx. 200% increase in processing production
W-SCOPE KOREA CO., LTD.	Head Office (Cheonju-si, Chungbuk, Republic of Korea)	Coating Production Lines #7 to #10	3,644	5	Own funds and bank borrowings	June 2018	During the first half of 2020	Approx. 400% increase in processing production
W-SCOPE CHUNGJU PLANT CO., LTD.	Head Office (Chungju-si, Chungbuk, Republic of Korea)	Production Lines #10 and #11	11,015	9,013	Own funds, fund for capital increase and bank borrowings	October 2016	During the second 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	9,857	1,617	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.