Consolidated Financial Results for the Nine Months Ended September 30, 2018 [Japanese GAAP]

November 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: November 12, 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 Nine Months Ended September 30, 2018 (January 1, 2018 to September 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	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2018	6,277	(9.5)	(1,736)	-	(1,569)	-	(1,353)	-
September 30, 2017	6,933	4.2	228	(87.6)	4	(99.7)	19	(98.3)

(Note) Comprehensive income: Nine Months ended September 30, 2018: ¥(2,453) million [- %]
Nine Months ended September 30, 2017: ¥277 million [- %]

	Net profit per share	Diluted net profit per share
Nine months ended	Yen	Yen
September 30, 2018	(43.31)	-
September 30, 2017	0.62	0.60

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	49,115	20,439	41.6
As of December 31, 2017	46,674	22,948	49.1

(Reference) Equity: As of September 30, 2018: ¥20,408 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	-	0.00	-		
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: 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):
September 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:
September 30, 2018: 223 shares
December 31, 2017: 223 shares

3) Average number of shares during the period:
Nine months ended September 30, 2018: 31,252,058 shares
Nine months ended September 30, 2017: 31,106,886 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 Monday, November 12, 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 nine months ended September 30, 2018, the U.S. corporate business conditions remained strong, despite emerging concerns over the impact of trade policies against China. Meanwhile, in Europe, economy showed growing signs of stagnation due to the impacts of currency instability in emerging countries and U.S.-China trade friction. In China, economy continued to slow down, raising concerns over the negative impact of trade friction with the U.S. In the W-SCOPE Group's (hereinafter, the "Group") core lithium-ion secondary battery separators business, regarding the Chinese lithium-ion battery market, which has led the demand for EV applications, production at each battery manufacturer continued to be unstable due to factors including changes in subsidy system for automotive batteries and price fluctuation of some main components, causing a continued deceleration. On the other hand, major Japanese and South Korean battery manufacturers enjoy stable growth in the production of power system high-end cylindrical batteries. Meanwhile, in view of the expansion of EV demand mainly from European automobile manufacturers over the medium term, lithium-ion battery manufacturers in Japan, China, South Korea and other countries and their main components suppliers are continuing active capital investments. Similarly, in Europe, capital investments by new battery manufacturers are rapidly underway.

The Company continues to install the latest large-scale production lines and to improve manufacturing environment in the plants, with a view to catering to the expansion of lithium-ion battery market and demand for high-quality separators that ensure safety of batteries. Furthermore, in preparation for the anticipated increased demand from 2020 and onward, the Company systematically continues to expand separator deposition lines and coating lines.

Under this market environment, sales volume in China for the nine months ended September 30, 2018 was ¥1,762 million, down 44.6% compared to the same period of the previous fiscal year. This significant decrease was due to a delayed recovery in EV demand continuing from the second quarter, causing a significant drop in the sales volume during the nine months ended September 30, 2018. In South Korea, demand from the LG Group and new customers for consumer product applications continued to grow, and sales increased to ¥3,510 million, up 35.6% compared to the same period of the previous fiscal year. Meanwhile, sales to Japanese customers amounted to ¥928 million, down 17.7% compared to the same period of the previous fiscal year, mainly to Tohoku Murata Manufacturing Group companies. As a result, during the nine months ended September 30, 2018, significant increase in sales volume to South Korean customers could not make up for the decrease in sales to Chinese customers, and sales volume decreased 9.5% from the same period of the previous fiscal year. As for operating profit, the Group proceeded with expansion of deposition lines and coating lines, thereby increasing fixed costs such as depreciation. In addition, at W-SCOPE KOREA CO., LTD., the Company's production subsidiary, and W-SCOPE CHUNGJU PLANT CO., LTD. (hereinafter, "WCP") that commenced operation, costs are increasing due to increase in technical evaluations for projects anticipating mass production and sale from the next year and in sample shipments for specification approvals.

Average exchange rates for the nine months ended September 30, 2018 were ¥109.61 to the US dollar, an appreciation of approximately ¥2.27 compared to the same period of the previous fiscal year, 1,090.88 Korean won to the US dollar, an appreciation of 47.80 Korean won compared to the same period of the previous fiscal year, and ¥100.5 for 1,000 Korean won, a depreciation of approximately ¥2.2 compared to the same period of the previous fiscal year.

In this environment, sales volume decreased by ¥655 million or 9.5% compared to the same period of the previous fiscal year to ¥6,277 million. Meanwhile, operating profit decreased by ¥1,965 million compared to the

same period of the previous fiscal year to operating loss of ¥1,736 million (operating profit of ¥228 million in the same period of the previous fiscal year), net profit before taxes and other adjustment decreased by ¥1,571 million to net loss before taxes and other adjustment of ¥1,559 million (net profit before taxes and other adjustment of ¥12 million in the same period of the previous fiscal year), and net profit attributable to owners of parent decreased by ¥1,372 million to net loss attributable to owners of parent of ¥1,353 million (net profit attributable to owners of parent of ¥19 million in the same period of the previous fiscal year).

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

In the global economy for the nine months ended September 30, 2018 and thereafter, although concerns remain over the impact of U.S.-China trade friction on the Chinese economy and as to how much the European economy will be affected by the stagnant Chinese economy, demand from automobile industries is expected to expand steadily over the medium- to long-term in the battery-related businesses.

In the fourth quarter and thereafter, business performance is expected to progress largely in line with the plan. Sales volume to South Korean customers is expected to grow steadily, and sales to Japanese customers is on a recovery track. Meanwhile, the Group has been continuing upfront investment in preparation for an increase in demand from existing customers from 2019 and thereafter. Going forward, amid continuing advances in high energy density in the designing of EV batteries, significant growth in demand is anticipated for separators coated with thin films, the Company's mainstay products.

Regarding the Company production status, the Company has continued sample shipments from the newly installed large-scale production lines (Production Lines #8-11) and proceeded with preparation for full-fledged mass production from the next year. Along with this, the Company has been preparing to install Production Lines #12 and #13 at WCP (scheduled to commence operation in the second half of 2019) and making final adjustments to the facility specifications with an eye toward an official order placement of Production Lines #14 and #15. In addition, a decision has been made to newly invest in four coating lines at WCP (scheduled to commence operation in the first half of 2020). Thanks to these capital investments, the Company's production capacity from 2018 through 2020 will increase by more than 50% annually compared to that as of December 31, 2017.

The projected average exchange rates for the fourth quarter of the fiscal year ending December 31, 2018 as the premise for the financial results forecast are ¥108 to the US dollar, 1,100 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 September 30, 2018
Assets		
Current assets		
Cash and bank deposits	10,529	8,972
Notes and accounts receivable – trade	2,450	2,486
Merchandise and finished goods	1,036	1,918
Raw materials and supplies	397	399
Other	571	576
Total current assets	14,985	14,353
Fixed assets		
Tangible fixed assets		
Buildings and structures	5,766	8,038
Accumulated depreciation	(677)	(868)
Buildings and structures, net	5,088	7,170
Machinery, equipment and vehicles	22,466	23,392
Accumulated depreciation	(6,466)	(8,019)
Machinery, equipment and vehicles, net	16,000	15,373
Construction in progress	10,057	11,335
Other	393	526
Accumulated depreciation	(196)	(232)
Other, net	196	293
Total tangible fixed assets	31,343	34,173
Intangible fixed assets		
Other	72	137
Total intangible fixed assets	72	137
Investments and other assets		
Deferred tax assets	237	409
Other	36	40
Total investments and other assets	273	450
Total fixed assets	31,688	34,761
Total assets	46,674	49,115

(Million yen)

	As of December 31, 2017	As of September 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	127	137
Short-term debt	5,854	5,699
Current portion of long-term debt	2,067	3,424
Accounts payable - other	808	771
Income taxes payable	18	19
Deferred tax liabilities	115	63
Other	103	150
Total current liabilities	9,094	10,266
Fixed liabilities		
Long-term debt	14,060	17,640
Net defined benefit liability	182	314
Deferred tax liabilities	0	0
Other	387	453
Total fixed liabilities	14,631	18,408
Total liabilities	23,725	28,675
Net assets		
Shareholders' equity		
Capital	7,676	7,692
Capital surplus	7,622	7,638
Retained earnings	3,934	2,503
Treasury shares	(0)	(0)
Total shareholders' equity	19,232	17,834
Accumulated other comprehensive income		
Foreign currency translation adjustment	3,673	2,573
Total accumulated other comprehensive income	3,673	2,573
Stock warrants	42	31
Total net assets	22,948	20,439
Total liabilities and net assets	46,674	49,115

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine months ended September 30

(Million yen)

	For the nine months ended September 30, 2017	For the nine months ended September 30, 2018
Sales volume	6,933	6,277
Cost of goods sold	5,747	6,523
Gross profit (loss)	1,185	(245)
Selling, general and administrative expenses	957	1,491
Operating profit (loss)	228	(1,736)
Non-operating revenue		
Interest income	8	16
Foreign exchange gains	-	264
Subsidy income	66	74
Gain on donation of assets	44	3
Other	3	2
Total non-operating revenue	123	362
Non-operating expenses		
Interest expenses	51	146
Foreign exchange losses	273	-
Commission fee	22	40
Other	0	8
Total non-operating expenses	347	195
Ordinary profit (loss)	4	(1,569)
Extraordinary profit		
Gain on reversal of stock warrants	8	10
Total extraordinary profit	8	10
Net profit (loss) before taxes and other adjustment	12	(1,559)
Income taxes	(6)	(205)
Net profit (loss)	19	(1,353)
Net profit attributable to non-controlling interests	-	-
Net profit (loss) attributable to owners of parent	19	(1,353)

Quarterly Consolidated Statements of Comprehensive Income

Nine months ended September 30

(Million yen)

	For the nine months ended September 30, 2017	For the nine months ended September 30, 2018
Net profit (loss)	19	(1,353)
Other comprehensive income		
Foreign currency translation adjustment	258	(1,099)
Total other comprehensive income	258	(1,099)
Comprehensive income	277	(2,453)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	277	(2,453)
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 nine months ended September 30, 2018 were as follows.

Business segment	For the nine months ended September 30, 2018	
	Sales amount (Million yen)	Y-o-Y ratio (%)
Lithium-ion secondary battery separators	6,277	90.5
Total	6,277	90.5

(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 nine months ended September 30, 2017		For the nine months ended September 30, 2018	
	Sales amount (Million yen)	Ratio (%)	Sales amount (Million yen)	Ratio (%)
LG Group	2,512	36.2	3,015	48.0
Tohoku Murata Manufacturing Group	1,095	15.8	867	13.8
Xuran Electronics Co., Ltd.	2,235	32.2	821	13.1
EVE Energy Co., Ltd.	–	–	703	11.2

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 nine months ended September 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	1,004	843	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	3,762	319	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	11,060	9,947	Own funds, fund for capital increase and bank borrowings	October 2016	During the first half of 2019	Approx. 60% increase in production
W-SCOPE CHUNGJU PLANT CO., LTD.	Head Office (Chungju-si, Chungbuk, Republic of Korea)	Production Lines #12 and #13	10,131	2,016	Own funds, fund for capital increase and bank borrowings	September 2017	During the second half of 2019	Approx. 60% increase in production
W-SCOPE CHUNGJU PLANT CO., LTD.	Head Office (Chungju-si, Chungbuk, Republic of Korea)	Coating Production Lines #11 to #14	4,890	37	Own funds and bank borrowings	September 2018	During the first half of 2020	Approx. 400% increase in processing 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.