# Consolidated Financial Results for the Fiscal Year Ended December 31, 2018 [Japanese GAAP]

February 14, 2019

Company name: W-SCOPE Corporation
Stock exchange listing: Tokyo Stock Exchange
Code number: 6619
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Scheduled date of Annual Shareholders' Meeting: March 20, 2019
Scheduled date of commencing dividend payments: March 22, 2019
Scheduled date of filing annual securities report: March 22, 2019
Availability of supplementary briefing material on annual financial results: Available
Schedule of annual 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 Fiscal Year Ended December 31, 2018 (January 1, 2018 to December 31, 2018)

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

| | Sales volume | | Operating profit | | Ordinary profit | | Net profit attributable to owners of parent | |
|---|---|---|---|---|---|---|---|---|
| Fiscal year ended | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| December 31, 2018 | 8,731 | (8.3) | (3,348) | - | (3,305) | - | (2,861) | - |
| December 31, 2017 | 9,517 | 5.2 | 274 | (88.4) | (108) | - | (119) | - |

(Note) Comprehensive income: Fiscal year ended December 31, 2018: ¥(5,048) million [- %]
Fiscal year ended December 31, 2017: ¥2,289 million [(65.0) %]

| | Net profit per share | Diluted net profit per share | Return on equity | Ordinary profit to total assets | Operating profit to sales volume |
|---|---|---|---|---|---|
| Fiscal year ended | Yen | Yen | % | % | % |
| December 31, 2018 | (91.53) | - | (14.1) | (7.0) | (38.3) |
| December 31, 2017 | (3.85) | - | (0.6) | (0.3) | 2.9 |

(Reference) Equity in earnings (losses) of affiliated companies: Fiscal year ended December 31, 2018: ¥ - million
Fiscal year ended December 31, 2017: ¥ - million

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| As of December 31, 2018 | 47,496 | 17,844 | 37.5 | 569.12 |
| As of December 31, 2017 | 46,674 | 22,948 | 49.1 | 734.23 |

(Reference) Equity: As of December 31, 2018: ¥17,813 million
As of December 31, 2017: ¥22,905 million

(3) Consolidated Cash Flows

| | Net cash provided by (used in) operating activities | Net cash provided by (used in) investing activities | Net cash provided by (used in) financing activities | Cash and cash equivalents at end of period |
|---|---|---|---|---|
| Fiscal year ended | Million yen | Million yen | Million yen | Million yen |
| December 31, 2018 | (943) | (9,825) | 5,644 | 5,308 |
| December 31, 2017 | 697 | (14,314) | 13,566 | 10,529 |

**2. Dividends**

| | Annual dividends | | | | | Total dividends | Payout ratio (consolidated) | Dividends to net assets (consolidated) |
|---|---|---|---|---|---|---|---|---|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Year-end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % | % |
| Fiscal year ended December 31, 2017 | - | 0.00 | - | 2.50 | 2.50 | 77 | - | 0.36 |
| December 31, 2018 | - | 0.00 | - | 2.50 | 2.50 | 78 | - | 0.38 |
| Fiscal year ending December 31, 2019 (Forecast) | - | 0.00 | - | 2.50 | 2.50 | | 26.04 | |

**3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)**

(% 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 | 6,500 | 58.7 | (200) | - | (500) | - | (500) | - | (15.99) |
| Full year | 17,500 | 100.4 | 800 | - | 400 | - | 300 | - | 9.6 |

*** 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) 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

(3) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

December 31, 2018: 31,299,600 shares

December 31, 2017: 31,197,600 shares

2) Total number of treasury shares at the end of the period:

December 31, 2018: 223 shares

December 31, 2017: 223 shares

3) Average number of shares during the period:

Fiscal year ended December 31, 2018: 31,263,985 shares

Fiscal year ended December 31, 2017: 31,124,982 shares

(Reference) Summary of Non-consolidated Financial Results

**1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2018 (January 1, 2018 to December 31, 2018)**

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

| | Sales volume | | Operating profit | | Ordinary profit | | Net profit | |
|---|---|---|---|---|---|---|---|---|
| Fiscal year ended | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| December 31, 2018 | 1,883 | 18.0 | (132) | - | 207 | (81.5) | 196 | (81.8) |
| December 31, 2017 | 1,596 | 97.8 | (216) | - | 1,124 | 176.7 | 1,075 | 181.1 |

| | Net profit per share | Diluted net profit per share |
|---|---|---|
| Fiscal year ended | Yen | Yen |
| December 31, 2018 | 6.28 | 6.06 |
| December 31, 2017 | 34.54 | 33.12 |

(2) Non-consolidated Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| As of December 31, 2018 | 39,531 | 18,577 | 46.9 | 592.52 |
| As of December 31, 2017 | 35,132 | 18,436 | 52.4 | 589.60 |

(Reference) Equity: As of December 31, 2018: ¥18,545 million
As of December 31, 2017: ¥18,394 million

* These financial results are outside the scope of audit 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. Overview of Business Results, etc. (4) Future Outlook" on page 5 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, February 14, 2019. 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. Overview of Business Results, etc.

### (1) Overview of Business Results for the Fiscal Year 2018

(Business Results for the Fiscal Year 2018)

During the fiscal year ended December 31, 2018, even in the U.S., which had continued enjoying favorable economic conditions, corporate business conditions started to deteriorate conspicuously mainly in the manufacturing industries in the latter half of the year, as caution about the future outlook began to surface. Meanwhile, the European economy continued a downward trend in the growth rate due to sluggish corporate activities, mainly reflecting concerns about a slowdown in the Chinese economy and U.S.-China trade friction as well as the increasing likelihood of the U.K. leaving the European Union with no-deal. The Chinese economy continued to be stagnant owing to a conspicuous slowdown in growth primarily in the export industries against a backdrop of the impact of U.S.-China trade friction and a global economic slowdown. As a result, the global economy overall is starting to be affected by concerns about the outlook for the U.S. economy, which had driven stable growth.

Under these circumstances, in the W-SCOPE Group's (hereinafter, the "Group") core lithium-ion secondary battery separators business, although expansion of the smartphone market for consumer electronics applications, which accounts for more than 50% of the lithium-ion secondary battery market, became stagnant, growth continued on the back of the introduction of cordless power tools and cordless home appliances in the power battery market. In addition, in transportation equipment applications consisting of EV (electric vehicles) and HEV (hybrid vehicles), which have been driven by the Chinese market, despite a slowdown in growth in the Chinese market, automobile manufacturers in Europe and the U.S. have continued expanding investment related to EV manufacturing, and leading battery manufacturers and battery material manufacturers have also continued to expand their production scale.

Under this market environment, in the Chinese market, which had accounted for approximately 50% of the Company's sales until last year, the Company reduced its sales to China out of concern about a deterioration in fund reflux throughout the battery industry due to revision of the government subsidy system for the automotive battery business, and changed its sales activity policy to increase its supply to South Korean battery manufacturers which had strengthened relations with European automobile manufacturers. However, with the arrival of the transition period in the target markets, consolidated sales volume for the fiscal year 2018 decreased by ¥786 million, or 8.3%, compared to the previous fiscal year to ¥8,731 million.

By geographical area, sales volume to South Korea amounted to ¥4,872 million, up 39.7% compared to the previous fiscal year, due to growth in demand from the LG Group, which had long been our main customer, in addition to the expansion of sales to new major customers for which mass production and sale was commenced during the fiscal year 2018. Meanwhile, sales volume to China declined significantly to ¥2,323 million, down 48.1% compared to the previous fiscal year, due to the sluggish recovery of demand for EV applications as well as continuation of sales while giving priority to the collection of receivables. Furthermore, sales to Japanese customers were limited to ¥1,400 million, down 7.9% compared to the previous fiscal year, owing to a decrease in demand for batteries for smartphones.

Operating profit decreased by approximately ¥500 million compared to the previous fiscal year reflecting a decline in sales volume, and as a result of continued investments in production lines, depreciation increased by approximately ¥1,000 million and personnel expenses increased by approximately ¥200 million compared to the previous fiscal year. Furthermore, research and development cost increased significantly by approximately ¥2,000 million compared to the previous fiscal year due to efforts focused on product development and sample trial production in anticipation of the rapid launch of new projects for EV applications.

As a result, operating loss was ¥3,348 million (operating profit of ¥274 million in the previous fiscal year).

Non-operating revenue included foreign exchange gains of ¥197 million (¥412 million foreign exchange losses in the previous fiscal year), and as a result, net loss before taxes and other adjustment increased by ¥3,194 million compared to the previous fiscal year (¥99 million) to ¥3,294 million, and net loss attributable to owners of parent increased by ¥2,741 million compared to the previous fiscal year (¥119 million) to ¥2,861 million.

Average exchange rates for the fiscal year 2018 were ¥110.44 to the US dollar and ¥100.4 for 1,000 Korean won.

## (2) Overview of Financial Position for the Fiscal Year 2018

### (i) Assets, liabilities, and net assets

Total assets as of the end of the fiscal year under review stood at ¥47,496 million, up ¥822 million from the end of the previous fiscal year. The main causes are as follows.

(Assets)

Current assets stood at ¥9,834 million, a ¥5,150 million decrease from the end of the previous fiscal year. This was mainly due to a ¥5,221 million decrease in cash and bank deposits, a ¥293 million decrease in notes and accounts receivable – trade and a ¥415 million increase in merchandise and finished goods. Fixed assets were ¥37,662 million, a ¥5,973 million increase from the end of the previous fiscal year. This was mainly due to a ¥5,070 million increase in construction in progress, a ¥1,838 million increase in buildings and structures and a ¥1,468 million decrease in machinery, equipment and vehicles.

(Liabilities)

Liabilities stood at ¥29,651 million, up ¥5,926 million from the end of the previous fiscal year. Current liabilities as of the end of the consolidated fiscal year under review stood at ¥12,083 million, up ¥2,988 million from the end of the previous fiscal year. This was mainly due to a ¥1,464 million increase in current portion of long-term debt and a ¥1,133 million increase in short-term debt. Fixed liabilities stood at ¥17,568 million, up ¥2,937 million from the end of the previous fiscal year. This was mainly due to a ¥2,718 million increase in long-term debt.

(Net assets)

Net assets as of the end of the fiscal year under review stood at ¥17,844 million, down ¥5,103 million from the end of the previous fiscal year. This was mainly due to the recording of ¥2,861 million in net loss attributable to owners of parent and a ¥2,186 million decrease in foreign currency translation adjustment.

(3) Overview of Cash Flows for the Fiscal Year 2018

Cash and cash equivalents (hereinafter, "cash") at the end of the fiscal year under review decreased by ¥5,221 million or 49.6% from the end of the previous fiscal year to ¥5,308 million. The main causes are as follows.

(Net cash provided by (used in) operating activities)

Net cash used in operating activities amounted to ¥943 million (compared with ¥697 million provided in the previous fiscal year). This was mainly due to the recording of ¥2,751 million in depreciation and a ¥219 million increase in allowance for doubtful accounts, while there was the recording of ¥3,294 million in net loss before taxes and other adjustment and a ¥576 million increase in inventories.

(Net cash provided by (used in) investing activities)

Net cash used in investing activities amounted to ¥9,825 million (compared with ¥14,314 million used in the previous fiscal year). This was mainly due to ¥9,723 million of purchase of tangible fixed assets.

(Net cash provided by (used in) financing activities)

Net cash provided by financing activities amounted to ¥5,644 million (compared with ¥13,566 million provided in the previous fiscal year). This was mainly due to the recording of a ¥1,506 million of net increase in short-term debt and a ¥6,500 million of proceeds from long-term debt while there was a ¥2,317 million repayment of long-term debt.

(Reference) Trends in cash flow indicators

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 | Fiscal year ended December 31, 2016 | Fiscal year ended December 31, 2017 | Fiscal year ended December 31, 2018 |
|---|---|---|---|---|---|
| Equity ratio | 77.2 | 72.5 | 67.8 | 49.1 | 37.5 |
| Equity ratio based on market value | 69.2 | 375.0 | 178.2 | 156.5 | 77.2 |
| Cash flows/Interest-bearing debt ratio | 2.5 | 1.3 | 2.9 | 31.5 | - |
| Interest coverage ratio | 168.0 | 196.5 | 89.3 | 11.7 | - |

Equity ratio: Equity/Total assets
Equity ratio based on market value: Total market value of stock/Total assets
Cash flows/Interest-bearing debt ratio: Interest bearing debts/Cash flows
Interest coverage ratio: Cash flows/Interest paid

(Note 1) The indicators were calculated using consolidated financial figures.
(Note 2) Market capitalization is calculated based on the number of issued shares.
(Note 3) Cash flows are the figures of net cash provided by (used in) operating activities.
(Note 4) Interest-bearing debts include all debts recorded on the Consolidated Balance Sheets for which interest is paid.
(Note 5) The Cash flows/Interest-bearing debt ratio and the interest coverage ratio for the fiscal year ended December 31, 2018 are presented as "-" since they are negative values.

(4) Future Outlook

In the Group's core lithium-ion secondary battery separators business, demand for lithium-ion batteries for transportation equipment application is continuing to expand in the automobile industries in Europe and the U.S., while demand for separators that are one of the main components for the batteries is also rapidly expanding. Furthermore, in consumer product applications, sales of high added value separators are anticipated to grow. Given this market environment, continued growth in the lithium-ion secondary battery separator market is expected.

In preparation for such market expansion, the Group continues to make capital investments. Eleven mass production deposition lines are expected to commence operation at the beginning of the fiscal year 2019, and completion of construction of and moving to mass production in large-scale deposition Lines #12 and #13 are expected in the second half at W-SCOPE CHUNGJU PLANT CO., LTD. In addition, total of ten coating lines will be in operation at Plant No.3 of W-SCOPE KOREA CO., LTD. this year in response to increased demand. These capital investments are aimed to create a system that responds to continued demand expansion for consumer product applications from last year and ensures stable supply for new projects of transportation equipment applications. Based on these factors, sales volume of ¥17,500 million (200% of the previous fiscal year), operating profit of ¥800 million (operating loss of ¥3,348 million previous fiscal year), ordinary profit of ¥400 million (ordinary loss of ¥3,305 million previous fiscal year), and net profit attributable to owners of parent of ¥300 million (net loss attributable to owners of parent of ¥2,861 million previous fiscal year) are projected for the fiscal year ending December 31, 2019.

As the assumptions for the business results projections, ¥108.0 to the US dollar and ¥100.0 for 1,000 Korean won are the projected average exchange rates for the full year.

(5) Material Events Concerning the Going Concern Assumption

Part of the long-term debt of the Company (amounting to ¥14,157 million as of the end of the fiscal year under review) is subject to a financial covenant. As the Company recorded ordinary loss for two consecutive fiscal years, it is in violation of the covenant, and in case the covenant is applied, the Company will have to forfeit the benefit of time concerning such debt. In order to avoid such forfeiture, the Company is currently explaining the circumstances to financial institutions, and some of them have agreed to waive the application of the covenant. The Company is currently striving to convince the other financial institutions about its business performance plan and capital investment plan and therefore believes they will ultimately agree to waive the application of the covenant as well.

Accordingly, the Company believes that there are no material uncertainties concerning the going concern assumption.

## 2. Basic Views on Selection of Accounting Standards

Taking into consideration the comparability of consolidated financial statements across periods and among companies, the Group prepares its consolidated financial statements using Japanese GAAP for the time being.

Regarding the application of IFRS, the Group's policy is to respond appropriately based on consideration of the situation in Japan and overseas.

## 3. Consolidated Financial Statements and Primary Notes

### (1) Consolidated Balance Sheets

(Million yen)

| | As of December 31, 2017 | As of December 31, 2018 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and bank deposits | 10,529 | 5,308 |
| Notes and accounts receivable – trade | 2,450 | 2,156 |
| Merchandise and finished goods | 1,036 | 1,451 |
| Raw materials and supplies | 397 | 457 |
| Other | 571 | 459 |
| Total current assets | 14,985 | 9,834 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures | 5,766 | 7,839 |
| Accumulated depreciation | (677) | (913) |
| Buildings and structures, net | 5,088 | 6,926 |
| Machinery, equipment and vehicles | 22,466 | 22,908 |
| Accumulated depreciation | (6,466) | (8,376) |
| Machinery, equipment and vehicles, net | 16,000 | 14,532 |
| Construction in progress | 10,057 | 15,128 |
| Other | 393 | 540 |
| Accumulated depreciation | (196) | (247) |
| Other, net | 196 | 293 |
| Total tangible fixed assets | 31,343 | 36,880 |
| Intangible fixed assets | | |
| Other | 72 | 139 |
| Total intangible fixed assets | 72 | 139 |
| Investments and other assets | | |
| Deferred tax assets | 237 | 601 |
| Other | 36 | 40 |
| Total investments and other assets | 273 | 642 |
| Total fixed assets | 31,688 | 37,662 |
| Total assets | 46,674 | 47,496 |

(Million yen)

| | As of December 31, 2017 | As of December 31, 2018 |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 127 | 169 |
| Short-term debt | 5,854 | 6,987 |
| Current portion of long-term debt | 2,067 | 3,531 |
| Accounts payable - other | 808 | 1,212 |
| Income taxes payable | 18 | 21 |
| Deferred tax liabilities | 115 | 9 |
| Other | 103 | 195 |
| Total current liabilities | 9,094 | 12,127 |
| Fixed liabilities | | |
| Long-term debt | 14,060 | 16,779 |
| Net defined benefit liability | 182 | 261 |
| Deferred tax liabilities | 0 | - |
| Asset retirement obligations | 387 | 483 |
| Total fixed liabilities | 14,631 | 17,524 |
| Total liabilities | 23,725 | 29,651 |
| Net assets | | |
| Shareholders' equity | | |
| Capital | 7,676 | 7,692 |
| Capital surplus | 7,622 | 7,638 |
| Retained earnings | 3,934 | 995 |
| Treasury shares | (0) | (0) |
| Total shareholders' equity | 19,232 | 16,326 |
| Accumulated other comprehensive income | | |
| Foreign currency translation adjustment | 3,673 | 1,486 |
| Total accumulated other comprehensive income | 3,673 | 1,486 |
| Stock warrants | 42 | 31 |
| Total net assets | 22,948 | 17,844 |
| Total liabilities and net assets | 46,674 | 47,496 |

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

| | For the fiscal year ended December 31, 2017 | For the fiscal year ended December 31, 2018 |
|---|---|---|
| Sales volume | 9,517 | 8,731 |
| Cost of goods sold | 7,918 | 9,783 |
| Gross profit (loss) | 1,599 | (1,051) |
| Selling, general and administrative expenses | 1,324 | 2,296 |
| Operating profit (loss) | 274 | (3,348) |
| Non-operating revenue | | |
| Interest income | 13 | 20 |
| Foreign exchange gains | - | 197 |
| Gain on donation of assets | 58 | 4 |
| Subsidy income | 67 | 74 |
| Other | 6 | 7 |
| Total non-operating revenue | 144 | 304 |
| Non-operating expenses | | |
| Interest expenses | 84 | 203 |
| Foreign exchange losses | 412 | - |
| Commission fee | 25 | 45 |
| Other | 5 | 12 |
| Total non-operating expenses | 527 | 261 |
| Ordinary loss | (108) | (3,305) |
| Extraordinary profit | | |
| Gain on reversal of stock warrants | 8 | 10 |
| Total extraordinary profit | 8 | 10 |
| Net loss before taxes and other adjustment | (99) | (3,294) |
| Income taxes - current | 82 | 22 |
| Income taxes - deferred | (62) | (454) |
| Total income taxes | 20 | (432) |
| Net loss | (119) | (2,861) |
| Net loss attributable to non-controlling interests | - | - |
| Net loss attributable to owners of parent | (119) | (2,861) |

Consolidated Statements of Comprehensive Income

(Million yen)

| | For the fiscal year ended December 31, 2017 | For the fiscal year ended December 31, 2018 |
|---|---|---|
| Net loss | (119) | (2,861) |
| Other comprehensive income | | |
| Foreign currency translation adjustment | 2,409 | (2,186) |
| Total other comprehensive income | 2,409 | (2,186) |
| Comprehensive income | 2,289 | (5,048) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 2,289 | (5,048) |
| Comprehensive income attributable to non-controlling interests | - | - |

(3) Consolidated Statements of Changes in Net Assets

For the fiscal year ended December 31, 2017

(Million yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 7,633 | 7,579 | 4,132 | (0) | 19,344 |
| Changes of items during period | | | | | |
| Issuance of new shares | 42 | 42 | | | 85 |
| Dividends of surplus | | | (77) | | (77) |
| Net loss attributable to owners of parent | | | (119) | | (119) |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | 42 | 42 | (197) | – | (112) |
| Balance at end of current period | 7,676 | 7,622 | 3,934 | (0) | 19,232 |

| | Accumulated other comprehensive income | | Stock warrants | Total net assets |
|---|---|---|---|---|
| | Foreign currency translation adjustment | Total other comprehensive income | | |
| Balance at beginning of current period | 1,263 | 1,263 | 61 | 20,670 |
| Changes of items during period | | | | |
| Issuance of new shares | | | | 85 |
| Dividends of surplus | | | | (77) |
| Net loss attributable to owners of parent | | | | (119) |
| Net changes of items other than shareholders' equity | 2,409 | 2,409 | (19) | 2,389 |
| Total changes of items during period | 2,409 | 2,409 | (19) | 2,277 |
| Balance at end of current period | 3,673 | 3,673 | 42 | 22,948 |

For the fiscal year ended December 31, 2018

(Million yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 7,676 | 7,622 | 3,934 | (0) | 19,232 |
| Changes of items during period | | | | | |
| Issuance of new shares | 16 | 16 | | | 33 |
| Dividends of surplus | | | (77) | | (77) |
| Net loss attributable to owners of parent | | | (2,861) | | (2,861) |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | 16 | 16 | (2,939) | – | (2,906) |
| Balance at end of current period | 7,692 | 7,638 | 995 | (0) | 16,326 |

| | Accumulated other comprehensive income | | Stock warrants | Total net assets |
|---|---|---|---|---|
| | Foreign currency translation adjustment | Total other comprehensive income | | |
| Balance at beginning of current period | 3,673 | 3,673 | 42 | 22,948 |
| Changes of items during period | | | | |
| Issuance of new shares | | | | 33 |
| Dividends of surplus | | | | (77) |
| Net loss attributable to owners of parent | | | | (2,861) |
| Net changes of items other than shareholders' equity | (2,186) | (2,186) | (10) | (2,197) |
| Total changes of items during period | (2,186) | (2,186) | (10) | (5,103) |
| Balance at end of current period | 1,486 | 1,486 | 31 | 17,844 |

(4) Consolidated Statements of Cash Flows

(Million yen)

| | For the fiscal year ended December 31, 2017 | For the fiscal year ended December 31, 2018 |
|---|---|---|
| Cash flows from operating activities | | |
| Net loss before taxes and other adjustment | (99) | (3,294) |
| Depreciation | 1,719 | 2,751 |
| Increase (decrease) in allowance for doubtful accounts | 3 | 219 |
| Interest and dividends income | (13) | (20) |
| Interest expenses | 84 | 203 |
| Foreign exchange losses (gains) | 138 | (40) |
| Gain on reversal of stock warrants | (8) | (10) |
| Decrease (increase) in notes and accounts receivable - trade | (346) | (49) |
| Decrease (increase) in inventories | (365) | (576) |
| Increase (decrease) in notes and accounts payable - trade | 48 | 50 |
| Increase (decrease) in accounts payable - other | 47 | (18) |
| Other, net | 5 | 9 |
| Subtotal | 1,216 | (777) |
| Interest and dividend income received | 13 | 20 |
| Interest expenses paid | (59) | (167) |
| Income taxes paid | (472) | (19) |
| Net cash provided by (used in) operating activities | 697 | (943) |
| Cash flows from investing activities | | |
| Purchase of tangible fixed assets | (14,275) | (9,723) |
| Other, net | (38) | (101) |
| Net cash provided by (used in) investing activities | (14,314) | (9,825) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term debt | 5,387 | 1,506 |
| Proceeds from long-term debt | 9,500 | 6,500 |
| Repayment of long-term debt | (1,317) | (2,317) |
| Proceeds from exercise of share options | 73 | 33 |
| Cash dividends paid | (77) | (77) |
| Net cash provided by (used in) financing activities | 13,566 | 5,644 |
| Effect of exchange rate change on cash and cash equivalents | 70 | (96) |
| Net increase (decrease) in cash and cash equivalents | 20 | (5,221) |
| Cash and cash equivalents at beginning of period | 10,508 | 10,529 |
| Cash and cash equivalents at end of period | 10,529 | 5,308 |

(5) Notes to the Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Important matters that form the basis for preparing Consolidated Financial Statements)

Disclosures of items have been omitted since there have been no major changes from the most recent Securities Report (submitted on March 26, 2018).

(Segment information)

(Segment information)

1. Description of reportable segments

The Company and its consolidated subsidiaries comprise a single segment of lithium-ion secondary battery separators business. Hence the statement is omitted, as there are no other segments to be disclosed.

(Related information)

- For the fiscal year ended December 31, 2017

(i) Information by product and service

This statement is omitted, as sales volume of a single product or service to outside customers exceeded 90% of total sales volume in the Consolidated Statements of Income.

(ii) Information by geographical area

(1) Sales volume

(Million yen)

| Japan | South Korea | China | Europe & America | Total |
|---|---|---|---|---|
| 1,519 | 3,488 | 4,477 | 32 | 9,517 |

(Note) Sales volume are classified by country or area based on the locations of customers.

(2)Tangible fixed assets

(Million yen)

| Japan | South Korea | China | Total |
|---|---|---|---|
| 7 | 31,329 | 6 | 31,343 |

(iii) Information by major customer

(Million yen)

| Name of customer | Sales volume | Related segments |
|---|---|---|
| LG Group | 3,395 | Lithium-ion secondary battery separators |
| Xuran Electronics Co., Ltd. | 3,115 | Lithium-ion secondary battery separators |
| Tohoku Murata Manufacturing Group | 1,477 | Lithium-ion secondary battery separators |

- For the fiscal year ended December 31, 2018

(i) Information by product and service

This statement is omitted, as sales volume of a single product or service to outside customers exceeded 90% of total sales volume in the Consolidated Statements of Income.

(ii) Information by geographical area

(1) Sales volume

(Million yen)

| Japan | South Korea | China | Europe & America | Total |
|---|---|---|---|---|
| 1,400 | 4,872 | 2,323 | 135 | 8,731 |

(Note) Sales volume are classified by country or area based on the locations of customers.

(2) Tangible fixed assets

(Million yen)

| Japan | South Korea | China | Total |
|---|---|---|---|
| 5 | 36,872 | 1 | 36,880 |

(iii) Information by major customer

(Million yen)

| Name of customer | Sales volume | Related segments |
|---|---|---|
| LG Group | 3,973 | Lithium-ion secondary battery separators |
| Tohoku Murata Manufacturing Group | 1,318 | Lithium-ion secondary battery separators |
| Xuran Electronics Co., Ltd. | 976 | Lithium-ion secondary battery separators |
| EVE Energy Co., Ltd. | 909 | Lithium-ion secondary battery separators |

(Information concerning impairment loss on fixed assets by reportable segment)

There is no relevant information.

(Amortization and unamortized balance of goodwill by reportable segment)

There is no relevant information.

(Gain on bargain purchase by reportable segment)

There is no relevant information.

(Per share information)

| | For the fiscal year ended December 31, 2017 | For the fiscal year ended December 31, 2018 |
|---|---|---|
| Net assets per share | ¥734.23 | ¥569.12 |
| Net loss per share | ¥(3.85) | ¥(91.53) |
| Diluted net profit per share | – | – |

(Notes) 1. Diluted net profit per share is not presented because a net loss per share was posted, despite the existence of potential shares.

2. The basis for the calculation of net loss per share is as follows.

| | For the fiscal year ended December 31, 2017 | For the fiscal year ended December 31, 2018 |
|---|---|---|
| Net loss per share | | |
| Net loss attributable to owners of parent (Million yen) | (119) | (2,861) |
| Amount not attributable to common shareholders (Million yen) | – | – |
| Net loss attributable to owners of parent relating to common shares (Million yen) | (119) | (2,861) |
| Average number of common shares during each fiscal year (Shares) | 31,124,982 | 31,263,985 |
| Diluted net profit per share | | |
| Adjustment for net profit attributable to owners of parent (Million yen) | – | – |
| Increase in number of common shares (Shares) | – | – |
| (Stock warrants included in the above (Shares)) | – | – |
| Overview of potential shares not included in calculation of diluted net profit per share due to lack of dilutive effect | – | – |

(Significant subsequent events)

There is no relevant information.

## 4. Others

(1) Production, Orders and Sales

(i) Production

Production for the fiscal year under review was as follows.

| Business segment | For the fiscal year ended December 31, 2018 | |
|---|---|---|
| | Production amount (Million yen) | Y-o-Y ratio (%) |
| Lithium-ion secondary battery separators | 9,996 | 120.1 |
| Total | 9,996 | 120.1 |

(Notes) 1. Statement regarding production 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. Amounts are based on manufacturing costs.

3. The amounts indicated above do not include consumption taxes and other taxes.

(ii) Orders received

While the Group's products are basically made to order, due to the short period of time from production to delivery, actual production is conducted by means of a forecast-based production process based on the information of monthly or quarterly purchase plans of the customers, and by taking into account past orders and production capacity. Therefore, it is difficult to calculate orders and order backlog and consequently order information is omitted.

(iii) Sales

Sales for the fiscal year under review was as follows.

| Business segment | For the fiscal year ended December 31, 2018 | |
|---|---|---|
| | Sales amount (Million yen) | Y-o-Y ratio (%) |
| Lithium-ion secondary battery separators | 8,731 | 91.7 |
| Total | 8,731 | 91.7 |

(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 fiscal year ended December 31, 2017 | | For the fiscal year ended December 31, 2018 | |
|---|---|---|---|---|
| | Sales amount (Million yen) | Ratio (%) | Sales amount (Million yen) | Ratio (%) |
| LG Group | 3,395 | 35.7 | 3,973 | 45.5 |
| Tohoku Murata Manufacturing Group | 1,477 | 15.5 | 1,318 | 15.1 |
| Xuran Electronics Co., Ltd. | 3,115 | 32.7 | 976 | 11.2 |
| EVE Energy Co., Ltd. | – | – | 909 | 10.4 |

3. The amounts indicated above do not include consumption taxes and other taxes.
4. Information on sales to EVE Energy Co., Ltd. for the fiscal year ended December 31, 2017 is omitted as the ratio of such sales to total sales was less than 10%.
5. LG Group includes LG Chem, Ltd. Tohoku Murata Manufacturing Group includes Murata Energy Device Wuxi Co., Ltd. and Murata Energy Device 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) | Coating Production Lines #5 and #6 | 1,000 | 891 | Own funds and bank borrowings | February 2017 | During the first half of 2019 | 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 | 3,667 | 1,211 | 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 | 11,030 | 10,263 | 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 | 9,890 | 2,967 | 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) | Production Lines #14 and #15 | 9,883 | 920 | Own funds, fund for capital increase and bank borrowings | October 2018 | During the second half of 2020 | 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 | 4,747 | 672 | 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 facilities whose establishment was scheduled at the end of the previous fiscal year and has been completed are 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.