Consolidated Financial Results for the Nine Months Ended September 30, 2019
(Japanese GAAP)

November 14, 2019

Listed company name W-SCOPE Corporation Listed stock exchanges Tokyo Stock Exchange
Code-number 6619 URL https://w-scope.co.jp/
Representative Titles President and Representative Director Name Won-Kun Choi
Contact person Titles Director Name Hideo Ouchi (TEL) 03-5436-7155
Scheduled date to file Quarterly Securities Report November 14, 2019 Scheduled date of commencement of dividend payment : —
Preparation of supplementary material on quarterly financial results : Yes
Holding of quarterly financial results meeting : No

1. Consolidated Financial Results for the Third Quarter of FY2019 (January 1, 2019 to September 30, 2019)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary income		Net profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2019 3Q	8,824	40.6	(3,211)	-	(3,881)	-	(3,204)	-
FY2018 3Q	6,277	(9.5)	(1,736)	-	(1,569)	-	(1,353)	-

(NOTE) Comprehensive income FY2019 3Q (6,507)Millions of yen —%) FY2018 3Q (2,453)Millions of yen —%)

	Per share Net profit	Fully diluted Per share Net profit
	Yen	Yen
FY2019 3Q	(101.71)	-
FY2018 3Q	(43.31)	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
FY2019 2Q	53,224	12,420	23.3
FY2018	47,496	17,844	37.5

(Reference) Equities FY2019 3Q 12,377Millions of yen FY2018 17,813Millions of yen

2. Dividends

	Annual dividends				
	End of First Quarter	End of second quarter	End of the third quarter	Term end	Total
	Yen	Yen	Yen	Yen	Yen
FY2018	-	0.00	-	2.50	2.50
FY2019	-	0.00	-		
FY2019 (Forecast)				2.50	2.50

(NOTE) Revisions to the most recently announced dividend forecast :None

3. Consolidated Financial Forecasts for FY2019 (January 1, 2019 to December 31, 2019)

(Percentages indicate year-on-year changes.)

	Sale		Operating income		Ordinary income		Profit attributable to owners of parent Net income		Per share Net income
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	13,000	48.9	(2,600)	—	(3,400)	—	(3,000)	—	(95.79)

(NOTE) Revisions to consolidated earnings forecasts most recently announced : Yes

※ Notes

(1) Changes of important subsidiaries during the period : None

(Changes in specified subsidiaries resulting in changes in the scope of consolidation)

New —Company Company name 、Exclusion —Company Company name

(2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements : Yes

(3) Changes in accounting policies and changes or restatement of accounting estimates

① Changes in accounting policies caused by revision of accounting standards : Yes

② Changes in accounting policies other than (i) : None

③ Changes in accounting estimates : None

④ Restatements : None

(4) Number of shares outstanding (common stock)

① Number of shares outstanding at the end of the period (including treasury stock)	September 30, 2019	33,369,600Shares	December 31, 2018	31,299,600Shares
② Reacquired shares at the end of the year	September 30, 2019	302Shares	December 31, 2018	223Shares
③ Average number of shares during the period (cumulative from the beginning of the fiscal year)	Nine Months Ended September 30, 2019	31,502,902Shares	Nine Months Ended September 30, 2018	31,252,058Shares

※ This quarterly financial report is not subject to quarterly review by a certified public accountant or an auditing firm.

※ Explanations and other special notes concerning the appropriate use of business performance forecasts

(Cautionary Statement with Respect to Forward-Looking Statements)

Forward-looking statements in this report, including earnings forecasts, are based on information currently available to the Company and on certain assumptions deemed to be reasonable. These statements are not promised by the Company regarding future performance. Actual results may differ materially from the forecast depending on a range of factors. Please refer to "1. Qualitative Information on Quarterly Financial Results (1) Explanation of Operating Results" on page 2 of the attached material for the assumptions and precautions regarding the use of earnings forecasts.

(Method of Obtaining Supplementary Briefing Materials on Quarterly Financial Results)

The Supplementary Briefing Materials for the Quarterly Financial Results will be posted on our website on Thursday, November 14, 2019.

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1. Qualitative Information on Results for the Third Quarter Ended September 30, 2019

(1) Management's discussion

During the nine months of the fiscal year ending September 30, 2019, the U.S. economy began to show signs of slowdown in both the manufacturing and non-manufacturing sectors, and the situation continued to wait for improvement in trade frictions with China. The GDP growth rate continued to decline in China, and the economy continued to decelerate. In Europe, the slowdown in the Chinese economy is expected to continue.

In the lithium-ion secondary battery separator business, which is the Group's core business, although there is a sense of stagnation in the automotive LiB market due to sluggish vehicle sales in China and the end of the government subsidy system for EVs, European automakers continue to actively announce new EV models at motor shows held in various countries. As automakers become more focused on EVs, expectations for an increase in demand for automotive batteries continue to expand. Meanwhile, in consumer demand, while the storage system market is starting to pick up as a new application, there has been no recovery in demand for Chinese products exported to North America due to the sluggish smartphone market and the impact of trade friction between the United States and China.

Against this backdrop, we are shifting our sales mix from China to South Korea. At the same time, we are shifting from consumer electronics applications, where demand is volatile, to EV projects and storage systems, where adoption is expected over the medium to long term.

During this transition period, the sales of consumer products by each customer remained sluggish since June. However, demand for EV projects grew steadily and sales grew. As a result, consolidated net sales for the nine months ended September 30, 2019 amounted to ¥8,824 million (up 40.6% year on year).

By region, net sales to Korean customers were ¥5,701 million (up 62.4% year on year), reflecting large growth in EV projects amid delays in recovery of consumer projects. Sales to Chinese customers were ¥1,292 million (down 26.7% year-on-year) due to sales activities that prioritized collection of receivables. Sales to Japanese customers were ¥1,208 million (up 30.2% year-on-year), reflecting steady sales. Sales to customers in the U.S. continued to be steady, resulting in a 723.2% increase to ¥620 million.

Despite a significant increase in net sales compared with the same period of the previous fiscal year, operating loss was ¥3,211 million (compared with an operating loss of ¥1,736 million in the same period of the previous fiscal year). This was due to continued capital investment and personnel increases in preparation for future growth in demand, which resulted in an increase in depreciation and amortization of approximately ¥0.6 billion compared with the same period of the previous fiscal year, an increase in personnel expenses of approximately ¥1.2 billion, and an increase in development expenses and sample expenses of ¥34 million.

With regard to the status of production, nine production lines of W-SCOPE KOREA CO. LTD. ("WSK") have been producing new products on a trial basis or producing samples for new projects, but they have generally been operating smoothly. The cumulative 10-11 production lines of W-SCOPE CHUNGJU PLANT CO. LTD. ("WCP") have continued to be mass-produced and sales have been completed. In the No. 12 production line, which was installed at the end of June this year, mass-production preparations have already been completed for the approvals of customers' production lines. Similar preparations are planned for Line No. 13 by the end of this year.

In addition, amid growing demand for coating products for automotive applications, six coating lines have been operating stably at WSK and four coating lines have been installed at WCP.

Non-operating expenses included a foreign exchange loss of ¥388 million (compared with a foreign exchange gain of ¥264 million in the same period of the previous fiscal year). As a result, loss before income taxes and minority interests was ¥3,881 million (loss before income taxes and minority interests was ¥1,559 million in the same period of the previous fiscal year) and loss attributable to owners of parent was ¥3,204 million (loss attributable to owners of parent was ¥1,353 million in the same period of the previous fiscal year).

Average exchange rates for the nine months ended September 30, 2019 were ¥109.05 to the U.S. dollar, an appreciation of approximately ¥0.57 compared with the same period of the previous fiscal year, 1,162.18 Korean won to the U.S. dollar, a depreciation of 71.30 Korean won compared with the same period of the previous fiscal year, and ¥93.8 for 1,000 Korean won, an appreciation of approximately ¥6.7 compared with the same period of the previous fiscal year.

(2) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements

The market for separators for lithium-ion rechargeable batteries is expected to continue to recover for conventional consumer applications. However, the market for lithium-ion rechargeable battery separators for automotive and storage systems is expected to continue to expand, and demand from our customers remains robust.

In the fourth quarter, we expect volume shipments from the new WCP No. 12,13 production line to proceed steadily, and we expect a significant increase in sales volume.

On the other hand, expenses related to line approvals for large-scale projects have settled down, and operating income is expected to improve due to an increase in net sales accompanying an increase in sales volume.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous Consolidated Fiscal Year (As of December 31, 2018)	End of 3rd quarter of the fiscal year under review (As of September 30, 2019)
Assets		
Current assets		
Cash and deposits	5,308	777
Notes and accounts receivable - trade, net	2,156	2,268
Merchandise and finished goods	1,451	1,980
Raw materials and supplies	457	601
Others	459	531
Total current assets	9,834	6,160
Fixed assets		
Tangible fixed assets		
Buildings and structures	7,839	9,579
Accumulated depreciation	(913)	(1,067)
Buildings and structures, net	6,926	8,512
Machinery and equipment	22,908	29,877
Accumulated depreciation	(8,376)	(9,820)
Machinery, equipment and vehicles, net	14,532	20,056
Construction in progress	15,128	16,107
Others	540	1,241
Accumulated depreciation	(247)	(314)
Other, net	293	926
Net property, plant and equipment	36,880	45,604
Intangible fixed assets		
Others	139	104
Total intangible assets	139	104
Investments and other assets		
Deferred tax assets	601	1,298
Others	40	56
Total investments and other assets	642	1,355
Total fixed assets	37,662	47,064
Total assets	47,496	53,224

(Millions of yen)

	Previous Consolidated Fiscal Year (As of December 31, 2018)	End of 3rd quarter of the fiscal year under review (As of September 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable	169	484
Short-term borrowings	6,987	7,563
Current portion of long-term debt	3,531	4,217
Accounts payable	1,212	3,792
Income taxes payable	21	26
Others	151	331
Total current liabilities	12,073	16,415
Long-term liabilities		
Long-term debt	16,779	22,715
Obligations for retirement pay	261	520
Deferred tax liabilities	9	-
Asset retirement obligations	483	574
Others	43	578
Total long-term liabilities	17,578	24,388
Total liabilities	29,651	40,803
Net assets		
Shareholders' equity		
Capital stock	7,692	8,267
Capital surplus	7,638	8,213
Retained Earnings	995	(2,287)
Treasury stock	(0)	(0)
Total shareholders' equity	16,326	14,193
Accumulated other comprehensive income		
Foreign currency translation adjustments	1,486	(1,816)
Total other accumulated comprehensive income	1,486	(1,816)
Subscription rights to shares	31	43
Total net assets	17,844	12,420
Total liabilities and net assets	47,496	53,224

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

Consolidated income statement for the quarter

Third Quarter Consolidated Cumulative Period

(Millions of yen)

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2019
Net sales	6,277	8,824
Cost of sales	6,523	10,696
Gross loss	(245)	(1,871)
Selling, general and administrative expenses	1,491	1,339
Operating loss	(1,736)	(3,211)
Non-operating income		
Interest income	16	11
Foreign exchange gains	264	-
Subsidy income	74	32
Others	6	20
Total non-operating income	362	64
Non-operating expenses		
Interest expense	146	335
Foreign exchange loss	-	388
Commissions paid	40	7
Others	8	3
Total non-operating expenses	195	735
Ordinary loss	(1,569)	(3,881)
Extraordinary income		
Gain on reversal of subscription rights to shares	10	-
Total extraordinary income	10	-
Loss before income taxes and minority interests	(1,559)	(3,881)
Income taxes	(205)	(756)
Additional tax charges	-	78
Total income taxes	(205)	(677)
Net loss through the quarter	(1,353)	(3,204)
Loss attributable to non-controlling interests	-	-
Loss attributable to owners of parent	(1,353)	(3,204)

Quarterly Consolidated Statements of Comprehensive Income

Third Quarter Consolidated Cumulative Period

(Millions of yen)

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2019
Net loss through the quarter	(1,353)	(3,204)
Other comprehensive income		
Foreign currency translation adjustments	(1,099)	(3,303)
Total other comprehensive income	(1,099)	(3,303)
Comprehensive income	(2,453)	(6,507)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(2,453)	(6,507)
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on the Going Concern Assumption)

Not applicable.

(Notes on Substantial Changes in the Amount of Shareholders' Equity)

During the nine months ended September 30, 2019, the Company issued share subscription rights through third-party allotment on September 5, 2019 in accordance with a resolution passed by the Board of Directors on August 20, 2019, and the share subscription rights were exercised. As a result, capital stock and capital reserve increased by 561 million yen and 561 million yen, respectively, and as of September 30, 2019, capital stock and capital reserve stood at 8,267 million yen and 8,213 million yen, respectively.

(Adoption of Special Accounting Methods for Quarterly Consolidated Financial Statements)

(Calculation of Tax Expenses)

The effective tax rate after the application of tax effect accounting to income before income taxes for the current consolidated fiscal year is reasonably estimated and calculated by multiplying income before income taxes and minority interests by this estimated effective tax rate.

In the event that the estimated effective tax rate cannot be reasonably estimated, the tax calculation is based on the same method as the fiscal year-end. Deferred tax assets and deferred tax liabilities are recorded in the consolidated balance sheets after considering recoverability and other factors.

(Changes in Accounting Policies)

Our IFRS subsidiaries have adopted IFRS No. 16 "Leases" (IFRS No. 16) since the first quarter of the fiscal year under review. In applying IFRS 16, the cumulative effect of adopting this standard, which is permitted as a transitional measure, is recognized on the effective date of adoption.

The effect of the adoption of this standard on the consolidated financial statements is insignificant.

(Additional Information)

The Company has applied the partial amendment of the "Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and other accounting standards from the beginning of the first quarter of the current fiscal year, and accordingly, deferred tax liabilities are presented as a separate item of non-current liabilities.

3. Others

(1) Significant Events Related to Going Concern Assumptions

The Group posted an operating loss and an ordinary loss in the previous fiscal year. In the first nine months of the fiscal year under review, while sales trended upward as a result of the commencement of mass production of new EV application projects, the Group recorded an operating loss and an ordinary loss as a result of an increase in sample costs for the same projects, etc., which have continued since the previous fiscal year, and an increase in operating costs for approving production lines, etc. In addition, if an ordinary loss is recorded in the fiscal year under review, it violates the financial covenants that apply to certain long-term borrowings. If such covenants apply, the Group will forfeit the benefit of term.

In order to resolve this situation, the Group is strongly committed to achieving profitability in the next fiscal year by expanding shipments of new EV application projects based on a long-term supply agreement with customers that we have concluded earlier, and reducing costs by increasing the capacity utilization rate of our manufacturing lines. In terms of financing, the Group has secured a framework for continuing to receive support while maintaining close communication with financial institutions that have outstanding existing loans. The Group is also engaged in concrete discussions with multiple financial institutions and other entities regarding fund procurement to steadily implement the Medium-Term Management Plan. On November 11, the Board of Directors resolved to issue KRW 115.0 billion (approx. ¥10.3 billion) of convertible bonds to Noh & Partners Co., Ltd. as capital expenditure funds, and on the same day, the Company entered into a convertible bond underwriting agreement.

Accordingly, the Group does not recognize any significant uncertainty regarding the Company's going concern assumptions, although there are situations in which significant doubts can be raised regarding the Company's going concern assumptions.

(2) Status of sales

Sales Results

Sales results for the third quarter of the current fiscal year are as follows.

Business Segment	For the nine months ended September 30, 2019	
	Sales (Millions of yen)	Year on year (%)
Separators for lithium-ion secondary batteries	8,824	140.6
Total	8,824	140.6

(NOTE) 1 Since the Company and its consolidated subsidiaries are a single segment of lithium-ion secondary battery separators, the disclosure of sales results related to segment information has been omitted.

2 Transactions with major business partners and the ratio of corresponding sales to total sales are shown in the table below.

Counterparty	3rd quarter of previous fiscal year (On January 1, 2018 To September 30, 2018		3rd quarter of fiscal year under review (On January 1, 2019 To September 30, 2019	
	Sales (Millions of yen)	(%)	Sales (Millions of yen)	(%)
Samsung SDI groups	—	—	3,286	37.2
LG Group	3,015	48.0	2,274	25.8
Tohoku Murata Manufacturing Group	867	13.8	1,162	13.2
Xuran Electronics Co., Ltd.	821	13.1	—	—
EVE Energy Co., Ltd.	703	11.2	—	—

3 Figures do not include consumption tax and other items.

4 Samsung SDI groups for the first nine months of the previous fiscal year have been omitted because the ratio is less than 10% of this figure.

5 Tohoku Murata Manufacturing Group: Murata Energy Device Wuxi Co., Ltd. and Murata Energy Device Singapore Pte. Includes Ltd.

6 Xuran Electronics Co., Ltd. and EVE Energy Co., Ltd. for the third quarter of the current fiscal year are omitted because the proportions are less than 10/100.

(3) Expected value of capital expenditures

Expected value of capital expenditures

Company name	Site name (Location)	For the equipment Details	Projected investment		Funding option	Date of launch	To be completed Year	After completion Increase in Ability
			Total amount (Millions of yen)	Payments made (Millions of yen)				
W-SCOPE KOREA CO.,LTD.	Head Office (Chungzhou, Republic of Korea)	No.7-10 coating production facilities	3,596	3,733	Own funds and bank borrowings	2018 June	2020 First half	Processing and production Approx. 400% increase
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungzhou, Chungqing, Republic of Korea)	Production Lines No. 12 and 13	9,615	9,398	Own funds, capital increase funds and bank borrowings	2017 September	2019 Second half	Approx. 60% increase in production
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungzhou, Chungqing, Republic of Korea)	Production Lines No. 14 and 15	10,421	1,571	Own funds and bank borrowings	2018 October	2020 Second half	Approx. 60% increase in production
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungzhou, Chungqing, Republic of Korea)	No.11-14 coating production facilities	4,504	4,201	Own funds and bank borrowings	2018 September	2020 First half	Processing and production Approx. 400% increase

(NOTE) 1 The above amounts do not include consumption tax, etc.

2 Because our business is a single segment of lithium-ion secondary battery separators, it is divided by segment. No indication has been made.

3 "Increase in capacity after completion" is stated on a year-on-year basis.

4 Major new facilities, which were planned at the end of the previous consolidated fiscal year, were completed as follows:

Company name	Site name (Location)	For the equipment Details	Investment amount (Millions of yen)	Date of completion	Production capacity after completion
W-SCOPE KOREA CO.,LTD.	Head Office (Chungzhou, Republic of Korea)	No. 5 and No. 6 coating production facilities	932	2019 March	Approx. 200% increase in processing production
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungzhou, Chungqing, Republic of Korea)	No.10 production line	6,347	2019 February	Approx. 30% increase in production
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungzhou, Chungqing, Republic of Korea)	No.11 production line	4,016	2019 June	Approx. 30% increase in production

5 "Increase in capacity after completion" is stated on a year-on-year basis.