

Consolidated Financial Results for the Nine Months Ended September 30, 2017 [Japanese GAAP]



November 9, 2017

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 10, 2017
 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, 2017 (January 1, 2017 to September 30, 2017)

(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	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended September 30, 2017	6,933	4.2	228	(87.6)	4	(99.7)	19	(98.3)
September 30, 2016	6,654	23.5	1,844	34.4	1,551	9.8	1,154	(6.0)

(Note) Comprehensive income: Nine months ended September 30, 2017: ¥277 million [- %]

Nine months ended September 30, 2016: ¥(214) million [(152.8) %]

	Net profit per share	Diluted net profit per share
Nine months ended	Yen	Yen
September 30, 2017	0.62	0.60
September 30, 2016	39.25	36.93

(Note) The Company conducted a stock split of common stock on July 1, 2016 at the ratio of one to two shares. Net profit per share and diluted net profit per share are calculated based on the assumption that such stock split was implemented at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2017	40,277	20,931	51.9
As of December 31, 2016	30,394	20,670	67.8

(Reference) Equity: As of September 30, 2017: ¥20,886 million

As of December 31, 2016: ¥20,608 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, 2016	-	0.00	-	2.50	2.50
Fiscal year ending December 31, 2017	-	0.00	-		
Fiscal year ending December 31, 2017 (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, 2017 (January 1, 2017 to December 31, 2017)

(% 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	10,000	10.5	1,000	(57.8)	800	(67.7)	600	(69.2)	19.30

(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, 2017: 31,177,600 shares

December 31, 2016: 30,956,600 shares

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

September 30, 2017: 223 shares

December 31, 2016: 223 shares

3) Average number of shares during the period:

Nine months ended September 30, 2017: 31,106,886 shares

Nine months ended September 30, 2016: 29,410,966 shares

(Note) The Company conducted a stock split of common stock on July 1, 2016 at the ratio of one to two shares. Total number of issued shares (common shares) are calculated based on the assumption that such stock split was implemented at the beginning of the previous fiscal year.

* These quarterly financial results are outside the scope of quarterly review.

* 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.

(Change in unit of presentation)

The amounts of the accounts presented in quarterly consolidated financial statements and other items were previously stated in thousands of yen, but starting from the first quarter and the three months ended March 31, 2017, are stated in millions of yen, as a change in unit. Accordingly, the amounts presented for the previous fiscal year and the nine months ended September 30, 2016 are also stated in millions of yen to facilitate comparison.

(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, November 9, 2017. 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, 2017, while the US economy remained robust due to improvements in the manufacturing industry and Europe continued to achieve an annualized GDP growth of more than 2%, primarily due to increased exports to regions outside the Eurozone, China witnessed sluggish growth rates in all sectors, comprising domestic production, exports, investment and retail.

Under these circumstances, the W-SCOPE Group's (hereinafter, the "Group") core lithium-ion secondary battery separators business continued stable growth, and amid this trend, in light of the increase in global EV demand from next year, the Group companies regarded the nine months ended September 30, 2017 as a period for preparing systems to increase production capacity. At present, in consumer electronics applications, which account for nearly 60% of the market as a whole, smartphone batteries and power system applications continue stable growth. EV-related applications which already account for 40% of the market are expected to grow rapidly. Despite continuous dependence on the Chinese market, further expansion is foreseen in a large scale including the European and US markets.

The Chinese automobile-related market has started recovering after bottoming out in the first quarter of this year. The number of eco-friendly cars sold in China during the nine months ended September 30, 2017 totaled 420,000 units, up 40% compared to the same period of the previous fiscal year. Recovery in demand is expected to continue in the fourth quarter.

In the European and US markets, major automobile manufacturers, driven by the environmental policies of each country, continue to announce new EV and PHEV models, and are expected to increase production on a full scale from the second half of next year.

Under this market environment, the Company is continuing to implement a plan to launch mass production for large-scale production lines (Production Line #8 and beyond) in line with the rapid expansion of automobile-related demand. Production Line #8 has already commenced operation in the third quarter ended September 30, 2017 as planned, and a total of four large-scale production lines will commence operation by the first half of next year, rendering expected production capacity of 2018 to more than double that of 2016.

Sales volume in the Chinese market, the Group's main sales region, for the nine months ended September 30, 2017 was ¥3,183 million, down 10.1% compared to the same period of the previous fiscal year, due to a decrease in sales for the six months ended June 30, 2017. However, during the third quarter ended September 30, 2017, sales volume increased compared to the same period of the previous fiscal year. Sales in South Korea were ¥2,589 million, up 1.2% compared to the same period of the previous fiscal year, as sales to the LG Group continued to remain steady. Meanwhile, sales to Japanese customers were ¥1,127 million, up 662.1% compared to the same period of the previous fiscal year due to continuing growth in sales to Tohoku Murata Manufacturing (formerly Sony Energy Devices) Group companies. As a result, during the nine months ended September 30, 2017, sales volume increased compared to the same period of the previous fiscal year, reaching a record high on a quarterly basis. However, following the second quarter, operating profit fell significantly from the same period of the previous fiscal year, due to: 1) innovation costs for production lines and plants; 2) an increase in sample shipments to new customers; 3) prior employment of personnel related to the launch of mass production at WCP, a new manufacturing subsidiary, from the first half of 2018; and, 4) an increase in variable and other costs resulting from preparations to commence mass production on Line #8.

Average exchange rates for the nine months ended September 30, 2017 were ¥111.89 to the US dollar, a depreciation of approximately ¥3.49 compared to the same period of the previous fiscal year, 1,138.68 Korean won to the US dollar, an appreciation of 22.92 Korean won compared to the same period of the previous fiscal year and ¥98.3 for 1,000 Korean won, a depreciation of approximately ¥5.0 compared to the same period of the previous fiscal year.

In this environment, sales volume grew by ¥278 million or 4.2% compared to the same period of the previous fiscal year to ¥6,933 million. Meanwhile, operating profit decreased by ¥1,616 million or 87.6% compared to the same period of the previous fiscal year to ¥228 million, net profit before taxes and other adjustment decreased by ¥1,538 million or 99.2% compared to the same period of the previous fiscal year to ¥12 million, and net profit attributable to owners of parent decreased by ¥1,135 million or 98.3% compared to the same period of the previous fiscal year to ¥19 million.

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

The global economy for the nine months ended September 30, 2017 and thereafter is expected to continue on a trajectory of steady growth in the European and US markets. However, the slowdown in growth will be a source of concern in China.

In the separators market, expansion is expected to continue in the fourth quarter ending December 31, 2017, driven by the demand for eco-friendly cars in China. As the Company has started mass shipment from Production Line #8, which is expected to increase sales quantity, sales volume is also anticipated to reach a record high following the third quarter ended September 30, 2017. Although operating profit is on a recovery trend accordingly, it may undergo significant reduction as a result of continuous cost escalations to improve the production environment at the manufacturing subsidiary W-SCOPE KOREA (WSK), mass sample shipment for batteries for EVs and PHEVs, as well as an increase in variable costs mainly associated with production experiments and prototypes related to Production Line #8 and 9 launching mass production. On the other hand, efforts have been made to push forward with technical approvals for products made by Production Lines #8 and 9 for customers and results will be revealed through mid- to end-November. Depending on the progress of the approvals, a considerable volume of shipment is expected by the end of this year. As significant levels of uncertainty are involved if revisions are to be made at this stage to operating profit, ordinary profit and net profit attributable to owners of parent, the Group will promptly disclose amended figures when they are clear.

In the medium term, demand is expected to increase for the automobile industries in Europe and the US, in addition to the Chinese market. The Company will continue sample shipments to meet this demand, and plans to launch a series of new projects from next year. Furthermore, in preparation for a sharp rise in demand from the automobile industry from the second half of next year, the Company plans to commence mass production on four large-scale production lines (Production Line #8 has already commenced operation) from the second half of the current year to the first half of next year, and has also decided to invest in Production Lines #12-15.

Capital investment plans currently in progress are as follows.

	Installation location	Scheduled start-up date
#9	Plant No. 2	End of 2017
#10 and #11	Chungju Plant	During the first half of 2018
#12 to #15	Chungju Plant	2019 to 2020

The projected average exchange rates for the fourth quarter and thereafter as the premise for the financial results forecast are ¥110.0 to the US dollar, 1,100.0 Korean won to the US dollar, and ¥100.0 for 1,000 Korean won.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of December 31, 2016	As of September 30, 2017
Assets		
Current assets		
Cash and bank deposits	10,508	9,821
Notes and accounts receivable – trade (net)	2,030	1,901
Merchandise and finished goods	659	866
Raw materials and supplies	247	351
Other	371	577
Total current assets	13,818	13,519
Fixed assets		
Tangible fixed assets		
Buildings and structures	3,341	4,774
Accumulated depreciation	(458)	(580)
Buildings and structures, net	2,883	4,194
Machinery, equipment and vehicles	13,817	14,581
Accumulated depreciation	(4,472)	(5,590)
Machinery, equipment and vehicles, net	9,345	8,991
Construction in progress	3,953	13,074
Other	245	312
Accumulated depreciation	(141)	(171)
Other, net	104	141
Total tangible fixed assets	16,286	26,402
Intangible fixed assets		
Other	52	60
Total intangible fixed assets	52	60
Investments and other assets		
Deferred tax assets	211	266
Other	26	29
Total investments and other assets	237	296
Total fixed assets	16,576	26,758
Total assets	30,394	40,277

(Million yen)

	As of December 31, 2016	As of September 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	68	117
Short-term debt	100	4,181
Current portion of long-term debt	1,317	1,585
Accounts payable - other	612	881
Income taxes payable	397	35
Deferred tax liabilities	135	100
Other	104	76
Total current liabilities	2,737	6,979
Fixed liabilities		
Long-term debt	6,628	11,797
Net defined benefit liability	184	322
Deferred tax liabilities	0	0
Other	174	247
Total fixed liabilities	6,986	12,367
Total liabilities	9,724	19,346
Net assets		
Shareholders' equity		
Capital	7,633	7,672
Capital surplus	7,579	7,618
Retained earnings	4,132	4,074
Treasury shares	(0)	(0)
Total shareholders' equity	19,344	19,364
Accumulated other comprehensive income		
Foreign currency translation adjustment	1,263	1,521
Total accumulated other comprehensive income	1,263	1,521
Stock warrants	61	44
Total net assets	20,670	20,931
Total liabilities and net assets	30,394	40,277

(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, 2016	For the nine months ended September 30, 2017
Sales volume	6,654	6,933
Cost of goods sold	4,032	5,747
Gross profit	2,621	1,185
Selling, general and administrative expenses	776	957
Operating profit	1,844	228
Non-operating revenue		
Interest income	1	8
Subsidy income	56	66
Gain on donation of assets	10	44
Other	2	3
Total non-operating revenue	70	123
Non-operating expenses		
Interest expenses	29	51
Foreign exchange losses	220	273
Share issuance cost	38	-
Commission fee	73	22
Other	1	0
Total non-operating expenses	363	347
Ordinary profit	1,551	4
Extraordinary profit		
Gain on reversal of stock warrants	-	8
Total extraordinary profit	-	8
Net profit before taxes and other adjustment	1,551	12
Income taxes	397	(6)
Net profit	1,154	19
Net profit attributable to non-controlling interests	-	-
Net profit attributable to owners of parent	1,154	19

Quarterly Consolidated Statements of Comprehensive Income

Nine months ended September 30

(Million yen)

	For the nine months ended September 30, 2016	For the nine months ended September 30, 2017
Net profit	1,154	19
Other comprehensive income		
Foreign currency translation adjustment	(1,368)	258
Total other comprehensive income	(1,368)	258
Comprehensive income	(214)	277
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(214)	277
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.

(Additional information)

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

Starting from the three months ended March 31, 2017, the Company has applied the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016).

3. Supplementary Information

(1) Sales

Sales

Sales for the nine months ended September 30, 2017 were as follows.

Business segment	For the nine months ended September 30, 2017	
	Sales amount (Million yen)	Y-o-Y ratio (%)
Lithium-ion secondary battery separators	6,933	104.2
Total	6,933	104.2

(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, 2016		For the nine months ended September 30, 2017	
	Sales amount (Million yen)	Ratio (%)	Sales amount (Million yen)	Ratio (%)
LG Group	2,457	36.9	2,512	36.2
Dongguan Xuran Electronics Co., Ltd.	2,134	32.1	2,235	32.2
Tohoku Murata Manufacturing Group	—	—	1,095	15.8

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

4. Information on sales to Tohoku Murata Manufacturing Group for the nine months ended September 30, 2016 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. (plans to change its name in December 2017), 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)	Production Lines #8 and #9	7,265	7,019	Own funds and bank borrowings	February 2016	During the second half of 2017	Approx. 60% increase in production
W-SCOPE KOREA CO., LTD.	Head Office (Cheonju-si, Chungbuk, Republic of Korea)	Coating Production Lines #3 and #4	1,557	1,647	Own funds and bank borrowings	September 2016	During the fourth quarter of FY2017	Approx. 200% increase in processing production
W-SCOPE KOREA CO., LTD.	Head Office (Cheonju-si, Chungbuk, Republic of Korea)	Coating Production Lines #5 and #6	686	323	Own funds and bank borrowings	February 2017	During the fourth quarter of FY2017	Approx. 200% increase in processing production
W-SCOPE CHUNGJU PLANT CO., LTD.	Head Office (Chungju-si, Chungbuk, Republic of Korea)	Production Lines #10 and #11	8,797	2,061	Own funds, fund for capital increase and bank borrowings	October 2016	During the first 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	7,841	1,146	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.