



Consolidated Financial Results for the Six Months Ended June 30, 2019
(Japanese GAAP)

August 13, 2019

Listed company name W-Scope Corporation Listed stock exchanges East
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 August 14, 2019 Scheduled date of commencement of dividend payment : —
Preparation of supplementary material on quarterly financial results : Yes
Holding of quarterly financial results meeting : Yes

1. Consolidated Financial Results for the First Half of FY2019 (January 1, 2019 to June 30, 2019)

(1) Consolidated Operating Results (Cumulative) (Percentages indicate year-on-year changes.)

	Sale		Operating income		Ordinary income		Profit attributable to owners of parent Quarterly net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2019 2Q	5,798	37.2	(2,415)	—	(2,775)	—	(2,466)	—
FY2018 2Q	4,227	(5.9)	(875)	—	(632)	—	(520)	—

(NOTE) Comprehensive income FY2019 2Q (4,498)Yen —%) FY2018 2Q (2,858)Yen —%)

	Per share Net profit	Fully diluted Per share Net profit
FY2019 2Q	Yen (78.75)	Yen —
FY2018 2Q	(16.68)	—

(2) Consolidated Financial Position

	Total asset	Net asset	Equity Ratio
FY2019 2Q	Millions of yen 53,160	Millions of yen 13,293	% 24.9
FY2018	47,496	17,844	37.5

(Reference) Equities FY2019 2Q 13,262Millions of yen FY2018 17,813Millions of yen

2. Dividend payment

	Dividend per share				
	End of first quarter	End of second quarter	End of the third quarter	Term end	Total
FY2018	Yen —	Yen 0.00	Yen —	Yen 2.50	Yen 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)

June 30, 2019	31,369,600Shares	December 31, 2018	31,299,600Shares
June 30, 2019	302Shares	December 31, 2018	223Shares
Six Months Ended June 30, 2019	31,319,430Shares	Six Months Ended June 30, 2018	31,228,007Shares

② Reacquired shares at the end of the year

③ Average number of shares during the period (cumulative from the beginning of the fiscal year)

※ 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 for Financial Results and Briefing Meeting Contents)

We plan to hold a briefing for institutional investors and analysts on Tuesday, August 13, 2019. The video of this briefing session and the materials used on the day of the briefing will be posted on our website promptly after the briefing session.

○ Accompanying Materials – Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review	4
(1) Management's discussion	4
(2) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements	5
2. Quarterly Consolidated Financial Statements	6
(1) Quarterly Consolidated Balance Sheets	6
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income	8
(3) Quarterly Consolidated Statements of Cash Flows	10
(4) Notes to Quarterly Consolidated Financial Statements	11
(Going Concern Assumption)	11
(Notes on Significant Changes in Shareholders' Equity)	11
Application of Special Accounting Methods for Preparing Quarterly Consolidated Financial Statements	11
Accounting change	11
Additional Information	11
3. Supplementary information	12
(1) Sales Status	12
(2) Capital Expenditure Forecasts	13

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

(1) Management's discussion

In the first half of the fiscal year under review, the global economy was experiencing an increasing sense of slowdown due to concerns over the impact of trade conflicts between the U.S. and China. In the European economy, the deterioration in business conditions in the manufacturing industry was also conspicuous, and business confidence in companies was on a downtrend. The Chinese economy also continued to decelerate due to a slowdown in export growth caused by trade conflicts with the United States.

In our core business of lithium-ion s battery separators, exports of Chinese products to the U.S. for consumer use were sluggish. In the Chinese automotive market, sales of EVs were sluggish due to the reduction of subsidies. On the other hand, the EV business of European automakers has steadily commenced mass production, and stable mass production is expected to proceed from the second half of this year.

Under these circumstances, major battery manufacturers aiming to mass-produce and supply products to European automakers in particular continue to expand their production capacity. Battery production plants used to be concentrated in Japan, South Korea, and China. Battery manufacturers are continuing to announce their investment plans for manufacturing batteries in Europe and the U.S. in line with the production bases of automobile manufacturers.

Against this backdrop, we are preparing to meet rapidly rising demand for EVs by continuing to invest in large-scale separators production lines to improve production capacity and productivity in line with the long-term supply agreement we concluded with our customers. In addition, we are working to develop products that are more secure than conventional products in order to meet the rising demand for high-voltage, high-capacity lithium-ion batteries.

In the fiscal year under review, sales grew steadily due to progress in mass production and supply of new EV projects. However, on the other hand, the production volume of batteries mounted on high-end products for export from China at our major customers' factories in China declined significantly, resulting in a decline in sales of approximately ¥500 million from the initial forecast for these markets in a single month of June. As a result, consolidated net sales for the first half of the current fiscal year were 5,798 million yen (up 37.2% year on year).

By region, sales in South Korea rose 60.4%, to ¥3,627 million, reflecting strong growth in demand from the Samsung SDI Group, our main customers. On the other hand, sales to China were 886 million yen (down 30.0% year-on-year) due to continuing efforts to prioritize collection of receivables. Sales to Japanese customers were 980 million yen (up 40.2% year-on-year) due to stable growth in demand for consumer products.

In terms of operating income, R&D expenses increased by approximately 400 million yen from the same quarter of the previous year due to the early implementation of approval of additional lines to prepare for a surge in demand for EV projects from the second half of this year. In addition, personnel expenses increased by approximately 700 million yen due to an increase in personnel to respond to increased production, and depreciation expenses increased by approximately 500 million yen due to continuing capital investment to prepare for an increase in demand from major customers.

As a result, the operating loss was 2,415 million yen (compared with an operating loss of 875 million yen in the same period of the previous fiscal year).

Regarding production conditions, nine production lines of W-SCOPE KOREA CO. LTD. have been conducting mass production trials for sample production lines and certification of EV projects in some lines, but they have generally been operating smoothly in all production lines. We began mass production and sales of W-SCOPE CHUNGJU PLANT CO. LTD.'s cumulative No. 10 and No. 11 lines, which were installed in the second half of last year, and are also working on manufacturing samples for technical approvals for major customers. In addition, the installation of lines No. 12 and No. 13 will be completed and trial operation will begin in the second half of the fiscal year.

Non-operating expenses included a foreign exchange loss of 237 million yen (compared with a foreign exchange gain of 286 million yen in the same period of the previous fiscal year). As a result, loss before income taxes and minority interests was 2,775 million yen (loss before income taxes of 622 million yen in the same period of the previous fiscal year), and loss attributable to owners of parent was 2,466 million yen (loss attributable to owners of parent of 520 million yen in the same period of the previous fiscal year).

In terms of the average exchange rates, the U.S. dollar depreciated approximately ¥1.3 year on year to ¥110.02, the U.S. dollar depreciated approximately ¥70.61 won to ¥1,146.01, and the 1,000 won currency depreciated approximately ¥5.1 to ¥96.0.

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

The global economy from the first half of the fiscal year under review is expected to experience a slowdown in economic growth in each country amid uncertainty about the impact of the trade conflict between the United States and China.

However, with regard to the outlook for demand for lithium-ion battery separators, production of lithium-ion batteries for EV applications by major battery manufacturers, which are our main customers, is expanding rapidly, and demand for separators, which are our main battery materials, is also growing significantly.

Under these circumstances, in the third and fourth quarters of the fiscal year under review, the recovery in shipments of our major customers to the Chinese factory was not anticipated, and we have to make downward revisions to our full-year sales plan. However, we expect growth in EV demand to be in line with our initial plan. As a result of these sales volume forecasts, we expect operating income to return to profitability on a quarterly basis in the fourth quarter of this year.

With regard to our production status, we are preparing to obtain sample shipments and customer line certification by the fourth quarter of this year after trial operation of the newly introduced large-scale production lines (lines No. 12 and No. 13).

To prepare for further demand growth, next year W-SCOPE CHUNGJU PLANT CO., Ltd. We are preparing to commence operations of Lines 14 and 15.

The average exchange rates for the second half of the fiscal year and thereafter, which are the assumptions for the financial results outlook, are assumed to be 105 yen to the U.S. dollar, 1,120 won to the U.S. dollar, and 93.75 yen to 1,000 won.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	End of previous fiscal year (As of December 31, 2018)	End of second quarter of the fiscal year under review (As of June 30, 2019)
Assets		
Current asset		
Cash and deposit	5,308	2,548
Notes and accounts receivable - trade, net	2,156	2,634
Merchandise and finished products	1,451	1,286
Raw materials and supplies	457	543
Other	459	565
Total current assets	9,834	7,578
Fixed asset		
Property, plant and equipment		
Buildings and structures	7,839	8,617
Accumulated depreciation	(913)	(1,019)
Buildings and structures, net	6,926	7,597
Machinery and equipment	22,908	30,686
Accumulated depreciation	(8,376)	(9,349)
Machinery, equipment and vehicles, net	14,532	21,336
Construction in progress	15,128	14,922
Other	540	901
Accumulated depreciation	(247)	(296)
Other, net	293	605
Total property, plant and equipment	36,880	44,461
Intangible assets		
Other	139	117
Total intangible assets	139	117
Investments and other assets		
Deferred tax assets	601	949
Other	40	53
Total investments and other assets	642	1,002
Total noncurrent assets	37,662	45,581
Total asset	47,496	53,160

(Millions of yen)

	End of previous fiscal year (As of December 31, 2018)	End of second quarter of the fiscal year under review (As of June 30, 2019)
Liabilities		
Current liability		
Notes and accounts payable-trade	169	406
Short-term borrowings	6,987	8,200
Current portion of long-term loans payable	3,531	4,317
Accounts payable	1,212	2,566
Income taxes payable	21	18
Other	151	283
Total current liabilities	12,073	15,793
Long-term liabilities		
Long-term borrowings	16,779	22,923
Obligations for retirement pay	261	386
Deferred tax liabilities	9	-
Asset retirement obligations	483	534
Other	43	228
Total noncurrent liabilities	17,578	24,073
Total liabilities	29,651	39,866
Net assets		
Shareholders' equity		
Common stock	7,692	7,705
Capital surplus	7,638	7,651
Retained earnings	995	(1,549)
Treasury stock	(0)	(0)
Total shareholders' equity	16,326	13,806
Other accumulated comprehensive income		
Foreign currency translation adjustment	1,486	(545)
Total other accumulated comprehensive income	1,486	(545)
Share subscription rights	31	31
Total net assets	17,844	13,293
Total liabilities and net assets	47,496	53,160

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

Consolidated income statement for the quarter

Second quarter consolidated cumulative accounting period

(Millions of yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Sale	4,227	5,798
Cost of sales	4,102	7,350
Gross profit or loss (Δ)	125	(1,551)
Selling, general and administrative expenses	1,001	863
Operating loss (Δ)	(875)	(2,415)
Non-operating income		
Interest income	8	10
Foreign exchange gain	286	-
Subsidy income	75	33
Other	5	5
Total non-operating income	375	48
Non-operating expense		
Interest expense	95	163
Foreign exchange loss	-	237
Commission paid	35	7
Other	2	0
Total non-operating expenses	132	408
Ordinary loss	(632)	(2,775)
Extraordinary income		
Gain on reversal of subscription rights to shares	10	-
Total extraordinary income	10	-
Loss before income taxes and minority interests	(622)	(2,775)
Income taxes	(101)	(380)
Additional tax charges	-	70
Total income taxes	(101)	(309)
Net loss through the quarter	(520)	(2,466)
Loss attributable to non-controlling interests	-	-
Net loss attributable to owners of parent	(520)	(2,466)

Quarterly Consolidated Statements of Comprehensive Income
 Second quarter consolidated cumulative accounting period

(Millions of yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Net loss through the quarter	(520)	(2,466)
Other comprehensive income		
Foreign currency translation adjustment	(2,337)	(2,032)
Total other comprehensive income	(2,337)	(2,032)
Comprehensive income	(2,858)	(4,498)
Breakdown		
Comprehensive income attributable to owners of parent	(2,858)	(4,498)
Comprehensive income attributable to non-controlling interests	-	-

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Cash flow from operating activities		
Loss before income taxes and minority interests	(622)	(2,775)
Depreciation and amortization	1,330	1,719
Increase (decrease) in allowance for doubtful accounts	(3)	49
Interest and dividends income	(8)	(10)
Interest expense	95	163
Foreign exchange gains and losses	(83)	247
Gain on reversal of subscription rights to shares	△10	-
Decrease (increase) in notes and accounts receivable-trade	157	(637)
(Increase) decrease in inventories	(786)	(27)
Increase (decrease) in trade payables	(8)	254
Increase (decrease) in accounts payable-other	(31)	69
Other	(36)	(30)
Sub-total	(8)	(976)
Interest and dividends income received	8	10
Interest expenses paid	(81)	(168)
Income taxes paid	(9)	(22)
Cash flow from operating activities	(90)	(1,157)
Cash flow from investing activities		
Purchase of property, plant and equipment	(4,076)	(9,913)
Other	(78)	(21)
Cash flow from investing activities	(4,154)	(9,934)
Cash flow from financing activities		
Net increase (decrease) in short-term borrowings	(300)	1,534
Proceeds from long-term debt	6,500	8,687
Repayment of long-term loans payable	(658)	(1,658)
Proceeds from exercise of stock options	33	26
Cash dividends paid	(77)	(78)
Other	-	(18)
Cash flow from financing activities	5,496	8,492
Effect of exchange rate change on cash and cash equivalents	(156)	(160)
Net (decrease) increase in cash and cash equivalents	1,094	(2,759)
Cash and cash equivalents at beginning of period	10,529	5,308
Period-end balance of cash and cash equivalents	11,624	2,548

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on the Going Concern Assumption)

Not applicable.

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

Not applicable.

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

(Calculation of Tax Expenses)

The Company reasonably estimates the effective tax rate after applying tax effect accounting to income before income taxes and minority interests for the consolidated fiscal year under review, and calculates the effective tax rate by multiplying income before income taxes and minority interests by the estimated effective tax rate.

If the estimated effective tax rate cannot be reasonably estimated, tax calculations are made using the same method as the fiscal year settlement. Deferred tax assets and deferred tax liabilities are recorded on the quarterly consolidated balance sheet after considering the recoverability, etc.

Accounting change

Our IFRS subsidiaries have adopted IFRS 16 "Leases" ("IFRS 16") from the first quarter of the current fiscal year. In applying IFRS 16, the Company adopted the method of recognizing the cumulative effect of adopting this standard, which is recognized as a transitional measure, on the date of adoption.

The effect of adopting this standard on the consolidated financial statements is immaterial.

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. Supplementary information

(1) Sales Status

Sales performance

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

Business Unit Name	For the six months ended June 30, 2019	
	Sales (Millions of yen)	Year on year (%)
Separators for lithium-ion secondary batteries	5,798	137.2
Total	5,798	137.2

(NOTE) 1 Since the Company and its consolidated subsidiaries are a single segment of the lithium-ion secondary battery separators business, the sales results are not described in relation to segment information.

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

Counterparty	First six-month period of previous fiscal year (January 1, 2018 To June 30, 2018)		First six-month period of fiscal year under review (January 1, 2019 To June 30, 2019)	
	Sales (Millions of yen)	% of	Sales (Millions of yen)	% of
LG CHEM. Group	2,060	48.7	1,801	31.1
Samsung SDI Group	-	-	1,713	29.6
Tohoku Murata Manufacturing Group	657	15.5	942	16.3
Xuran Electronics Co., Ltd.	674	15.9	-	-
EVE Energy Co., Ltd.	490	11.6	-	-

3 Figures do not include consumption tax and other items.

4 Among Tohoku Murata Manufacturing groups are Murata Energy Device Wuxi Co., Ltd. and Murata Energy Device Singapore Pte. Includes Ltd.

5 Samsung SDI groups for the first half of the previous fiscal year are omitted because the percentage is less than 10% of the total.

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

(2) Expected value of capital expenditures

Expected value of capital expenditures

Name of company	Name of Office (Location)	Details of facilities	Scheduled investment amount		Financing method	Commencement date	Scheduled completion date	Increase in capacity after completion
			Total (Million yen)	Amount already paid (Million yen)				
W-SCOPE KOREA CO.,LTD.	Head Office (Cheongju, Chungcheongbuk-do, Republic of Korea)	Coating Production Lines #7 ~ #10	3,600	3,520	Own funds and bank borrowings	2018 June	2020 First half	Processed Production Increase of about 400%
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungju, Chungcheongbuk-do, Republic of Korea)	Production lines #12 and #13	9,659	8,552	Own funds, capital increase, and bank borrowings	2017 September	2019 Second half	Approx. 60% increase in production volume
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungju, Chungcheongbuk-do, Republic of Korea)	Production lines #14 and #15	9,385	952	Own funds and bank borrowings	2018 October	2020 Second half	Approx. 60% increase in production volume
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungju, Chungcheongbuk-do, Republic of Korea)	Coating Production Lines #11~ #14	4,575	2,794	Own funds and bank borrowings	2018 September	2020 First half	Processed Production Increase of about 400%

(NOTE) 1 Consumption taxes are not included in the above amounts.

2 As our business is a single segment of lithium-ion secondary battery separators, it is by segment.

Not stated.

3 "Capacity increase after completion" is presented relative to the end of the previous fiscal year.

4 The major new facilities that were planned at the end of the previous consolidated fiscal year and were completed are as follows

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 (Chung Seido, South Korea)	Coating Production Lines #5 and #6	932	2019 March	Approx. 200% increase in processing production
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungju City, Chungseido, South Korea)	Production Line #10	6,347	2019 February	Approx. 30% increase in production volume
W-SCOPE CHUNGJU PLANT CO.,LTD.	Head Office (Chungju City, Chungseido, South Korea)	Production Line #11	4,016	2019 June	Approx. 30% increase in production volume

5 "Capacity increase after completion" is presented relative to the end of the previous fiscal year.